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Ventas Inc. (VTR) CEO Debra Cafaro on Q3 2019 Results - Earnings Call Transcript

Oct. 25, 2019 2:18 PM ET7 comments | 6 Likes

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Q3: 10-25-19 Earnings Summary

Press Release *10-Q* *Slides*

EPS of $0.2263 misses by $-0.10 | Revenue of $983.15M (4.98% Y/Y) beats by $47.72M

Earning Call Audio

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Ventas Inc. (NYSE:VTR) Q3 2019 Earnings Conference Call October 25, 2019 10:00 AM ET

Company Participants

Juan Sanabria - Head, IR

Debra Cafaro - Chairman & CEO

Bob Probst - CFO

Chris Cummings - SVP, Asset Management for Seniors Housing

John Cobb - Chief Investment Officer

Conference Call Participants

Nick Yulico - Scotiabank

Michael Bilerman - Citi

Vikram Malhotra - Morgan Stanley

Richard Anderson - SMBC

Michael Carroll - RBC Capital Markets

Jordan Sadler - KeyBanc Capital Markets

Steve Sakwa - Evercore ISI

Joshua Dennerlein - Bank of America Merrill Lynch

John Kim - BMO Capital Markets

Steve Valiquette - Barclays

Nick Joseph - Citi

Derek Johnston - Deutsche Bank

Lukas Hartwich - Green Street Advisors

Michael Mueller - JPMorgan

Daniel Bernstein - Capital One

Operator

Ladies and gentlemen, thank you for standing by and welcome to the Third Quarter 2019 Ventas Earnings Conference Call. At this time, all participants are in a listen-only mode. Please be advised that today's conference is being recorded. [Operator Instructions]

I would now like to hand the conference over to your speaker today, Mr. Juan Sanabrial, Vice President of Investor Relations. Thank you. Please go ahead.

Juan Sanabria

Thanks, Norma. Good morning and welcome to the Ventas conference call to review the company's announcement today regarding its results for the quarter ended September 30, 2019. As we start, let me express that our projections and predictions and certain other statements to be made during this conference call may be considered forward-looking statements within the meaning of the federal securities law. The company cautions that these forward-looking statements are subject to many risks, uncertainties and contingencies. And stockholders and others should recognize that actual results may differ materially from the company's expectations whether expressed or implied.

Ventas expressly disclaimed any obligation to release publicly any updates or revisions to any forward-looking statements reflecting the changes and expectations. Additional information about factors that may affect the company's operations and results is included in the company's Annual Report on Form 10-K for the year ended December 31, 2018 and the company's other SEC filings.

Please note the quantitative reconciliations between each non-GAAP financial measure reference on this conference call and its most directly comparable GAAP measure as well the company’s supplemental disclosure schedule are available in the Investor Relations section of our website at www.ventasreit.com.

I will now turn the call over to Debra A. Cafaro, Chairman and CEO of the company.

Debra Cafaro

Thank you, Juan and good morning to all of our shareholders and other participants. Welcome to the third quarter 2019 earnings call. I'm joined on today's call by my valued Ventas on today's call by my valued Ventas’ colleagues as we discuss our strong enterprise results in the quarter and other recent highlights including the closing of our Le Groupe Maurice partnership, accelerating investment into our future growth, primarily in our Research & Innovation business and our environmental social and governance leadership that is highlighted in our 2019 corporate sustainability report released today.

I'll also address the lower than expected third quarter performance of our senior housing operating portfolio and its forward implications for us in the context, a very positive leading indicators in the business. It is very heartening to see that construction starts of New Senior Living communities this quarter especially in assisted living where the lowest they've been in nine years, and that demand for Senior Living is growing at its highest level on record.

Starting with our third quarter results, I'm very pleased to report a strong quarter of normalized FFO $0.96 per share. Our performance was driven by accretive investments, excellent capital markets activity and growth in our office and triple-net lease business. We've also refined our full-year normalized FFO per share guidance range to $3.81 to $3.85 per share, maintaining our midpoint at $3.83 per share. This expected outcome for 2019 is also consistent with the upper half of the normalized FFO guidance range we initiated in the first quarter of this year.

Ventas is benefiting significantly from our diversified portfolio and our effective investment in capital markets activity. Indeed in the quarter, the 70% of our same-store portfolio represented by our office triple net lease and Canadian senior housing portfolios grew cash NOI by nearly 3%. However, in our US SHOP business, which represents 25% of our enterprise, we experienced dynamic operating conditions in the quarter and occupancy took a precipitous leg down at the end of September.

Thus, as Bob will address in more detail, we expect our 2019 shop performance to fall below our original guidance range, mostly because our portfolio did not experience the strong seasonal lift in occupancy that is typical and rate softness continued during the quarter. These trends are continuing into the fourth quarter leading to a reduction in our full year SHOP 2019 guidance. Because we will end 2019 and enter 2020 off a lower base, we've also concluded that our enterprise growth will be deferred until after 2020.

While we are very disappointed in this deferral of our growth expectations, the team is resolute and focused on closing out the year by delivering this solid 2019 enterprise results we've outlined today. Additionally, we intend to make necessary adjustments and decisions that will improve performance and position us to capture the powerful upside that remains ahead in senior housing.

At the same time, we will continue to invest in our future, be good partners, stay productive, and focus on delivering value for our shareholders from the strong, diversified business we have built. We expect to provide you with 2020 guidance and the components thereof in the first quarter consistent with our historic practice. Among other things, our guidance and senior housing will be predicated on our review of operator budget, how the year ends and the impact of January 1 rate increases.

Before Bob addresses senior housing in greater detail, I'd like to highlight accretive and attractive investment activities and our ESG achievement. Within the $3.8 billion of consolidated investments we've made year-to-date, we were delighted to close on our new partnership with Montreal-based Le Groupe Maurice in the third quarter, with its price portfolio of 29 new high quality apartment-like senior housing communities and five in-progress development valued at $1.8 billion.

The LGM transaction and integration have gone exceedingly well and performance is in line with our expectations. To our new partners north of the border, we thank you for choosing Ventas as your partner. And we congratulate you on your success in maintaining your company and well-regarded brand and positioning LGM for continued sustainable growth.

We've also made great progress on our $1.5 billion university-based research and innovation development pipeline, as we continue to build this exciting business with our best-in-class development partner, Wexford. Among our key accomplishments in the quarter where execution of a 30-year lease with Drexel University for its new School of Nursing and Health Professions with an expected yield of nearly 10%, and the expansion of our footprint in the burgeoning used city market where our assets are currently 98% occupied. The acquired assets increased our developable square footage in the uCity submarket of Philadelphia to 4 million square feet, net of our One uCity and Drexel development.

The Ventas team is also aiming to close and commence several more R&I projects in the pipeline over the next several quarters. In some, we are pleased with our year-to-date investment quality and volume, as we continue to improve our portfolio and invest in our future.

Finally, we've significantly elevated our environmental social and governance profile. Our longstanding ESG efforts are organized around three key pillars of people, planet, and performance, and we are pleased that our ESG leadership has been repeatedly recognized by several prestigious organizations. Today, we released our 2019 corporate sustainability report that catalogs our ESG achievements and aspirations. We will continue our focused improvements in ESG areas that also support our business success.

In closing, over the past two decades, Ventas has experienced incredible business success and outperformance punctuated by periodic setbacks. Yet, with integrity, positivity, skill, focus and teamwork, we've always been able to rally back stronger than ever and today is no exception.

With that I'm pleased to turn the call over to our CFO, Bob Probst.

Bob Probst

Thanks, Debbie. I'm going to start by diving straight into our third quarter results for our SHOP segment which represents 33% of our NOI. SHOP same-store cash NOI in Q3 decreased 5% versus prior year, a disappointing result that fell short of our expectations. This result was led by revenue weakness from the cumulative effect of new openings and a dynamic relative market.

I'd highlight three primary drivers versus our expectations. First, though Q3 average occupancy grew sequentially to 86.7%, we did not see the expected typical seasonal occupancy lift. Therefore, the occupancy gap versus prior year widened from the second and third quarter by 30 basis points to an average 70 basis point occupancy gap.

In third quarter, the year-over-year occupancy gap widened sharply in September with September period end occupancy approximately 115 basis points lower than prior year.

Second, price competition driven by new supply was significant in pursuit of new residents in select geographies, most notably in secondary markets. Negative releasing spreads and our portfolio widened in Q3 instead of our expectation that they would tighten relative to prior year. As a result, REVPOR growth reduced sequentially from 60 basis points in the second quarter to 40 basis points in the third quarter year-over-year.

And third, ESL experienced discrete pricing challenges, exacerbated by new supply. Corrective action plans are in progress. I would note that excluding ESL, our Q3 SHOP same-store NOI performance will improve by over 100 basis points.

In light of Q3 revenue trends and a lower occupancy start point entering the fourth quarter, our operators plans call for aggressive pricing actions in pursuit of occupancy as we close out the year and set the base for 2020. We're also evaluating actions at the Ventas level to improve SHOP performance, including selective dispositions and or capital investments.

Turning to expenses and on a positive note operating expenses grew a modest 1.8% in the third quarter. Our operators continue to mitigate wage pressures by adroitly managing staffing and driving efficiencies in indirect costs.

I'd also highlight our Canadian portfolio, which increased occupancy 40 basis points to 94.2% and grew NOI at a robust 4.7%. This performance underscores the health of the Canadian senior housing market, which now represents nearly 25% of the SHOP portfolio NOI posts our closing of LGM.

Given third quarter results, we are revising our SHOP full year 2019 same store cash NOI guidance to now range from minus 4% to minus 5%. The guidance range implies a challenging fourth quarter given Q3 tech trends, a dynamic and competitive market, and lower occupancy levels entering the fourth quarter. We do see upside in senior housing in the US given record levels of demand in Q3, a continued positive trend in new starts, and attractive demographics.

Let's move on to our exciting office segment, which is approaching 30% of our NOI and currently represents over 26 million square feet. Our overall office segment delivered attractive same store cash NOI growth of 3.7% in the third quarter. And with year-to-date office growth of 2.9%, we're pleased to improve our full year office same store guidance. More on that in a minute.

Our R&I business which now exceeds 6 million square feet, led the way for office in the third quarter, increasing same store cash NOI by a stellar 10.6%. Occupancy increased 290 basis points on strong lease up at our Wake Forest assets while revenue per occupied square foot increased 7.6%.

Our 4220 Duncan development in the Cortex innovation community associated with Washington in St. Louis is now at 100% occupancy after only 16 months of operation, bringing Ventas' five in place Cortex buildings to 99% occupancy overall with a pipeline of incremental demand. R&I also benefited by a lease termination fee in Q3 and its non-same store portfolio of $4.7 million of NOI were slightly more than a penny of FFO.

Turning to our 20 million square-foot medical office business. MOB same-store NOI increased by a steady 1.6% in the third quarter. Operating expenses increased by just 20 basis points year-over-year in Q3, benefiting in part from utility savings arising from sustainability investments. We've seen a meaningful improvement in our MOB tenant satisfaction scores while our trailing 12-month MOB tenant retention ratio improved to the company's highest on record.

These office results are proof points of the various operational best practice initiatives Ventas is successfully implementing under Pete Bulgarelli's leadership that will drive sustainable growing cash flows. On the heels of strong year-to-date results, we are pleased to raise our full year 2019 office same-store NOI guidance which now range from 2% to 2.5% driven principally by better-than-expected strength in R&I.

On to triple net where same-store cash NOI increased by 2.1% for the third quarter driven by annual rent escalators across our diversified portfolio. Trailing 12-month EBITDAR and cash flow coverage for our overall stabilized triple net lease portfolio for the second quarter of 2019, the latest available information was stable at 1.5 times. Coverage in our triple net seniors housing, post-acute and health system assets also held firm with prior quarter.

I would highlight the continued strong performance by Ardent for the Ventas owned assets and for the enterprise overall. We are still on track for the approximately $10 million net NOI impact from proactively addressing leases with select lower credit triple net senior housing operators. This impact appears in non-same store results. As a result of year-to-date growth of 2.3% from the triple net full year same-store pool, we're raising our full year 2019 same-store cash NOI triple net guidance to now range from 2% to 2.5%.

Turning back to Enterprise results. Normalized FFO per share in the third quarter was a solid $0.96. The FFO performance versus 2018 was flat year-over-year, adjusted for the $0.03 per share cash fee received in the third quarter of 2018 related to the Kindred-Go Private transaction.

We were active in the debt capital markets in the third quarter. We extended our average debt maturity to nearly seven years and managed interest rate risk via issuance of $650 million of 3% senior notes to 2030 which were used to retire $600 million of 4.25% notes due 2022. To manage currency risk from the close of the LGM transaction, we also closed the CAD 500 million unsecured bank term loan at attractive pricing.

Our net debt to adjusted EBITDA ratio is 5.9 times at quarter-end. As expected, leverage increased sequentially from the second quarter leverage increased sequentially from the second quarter as we raised equity in Q2 to fund the LGM deal which closed in Q3.

I'll finish the prepared remarks with guidance. At this late stage in the year, we're narrowing our normalized FFO per share outlook for the full-year 2019 to now range from $3.81 to $3.85. The guidance midpoint of $3.83 is in line with our guidance range from the second quarter call. And at the higher end of our initial guidance range provided in February of $3.75 to $3.85 per share.

We’ve also narrowed our overall portfolio same-store cash NOI growth guidance for 2019, to now range from 0% to up 30 basis points, taking into account an increased guidance range on our triple-net and office portfolios and the reduction in SHOP.

Other assumptions underpinning our FFO guidance are largely the same as last quarter. Guidance includes the impacts of announced investments in capital markets activity to date. To close the whole Ventas team is resolute in taking actions that will improve performance and deliver growth and value for the benefit of all of our stakeholders.

With that, I'll hand it to the operator to open the line for questions.

Question-and-Answer Session

Operator

Thank you. [Operator Instructions] Our first question comes from Nick Yulico of Scotiabank. Your line is open.

Nick Yulico

Thanks. Good morning. I guess the first question is you had the commentary, Debbie, the press release about, you’re thinking now your return to enterprise growth will occur after 2020. Are we to read into it that, that you're not expecting FFO growth next year?

Debra Cafaro

Directionally, yes.

Nick Yulico

Okay.

Debra Cafaro

We think that this growth will defer past 2020.

Nick Yulico

Okay. And then, I guess, as we think about this year where you had an Investor Day where you're pretty positive. You now had a tough quarter for seniors housing. Can you just remind us how often are you getting updates from your senior housing operators on the performance of your assets?

And then specifically, besides what you cited about potential sales of assets. What other steps you're taking to address the issue that you're facing right now is senior housing? Is it an operator issue? Is there something better that you can do in terms of predicting that business? That would be helpful.

Bob Probst

Sure, Nick, it's Bob. Let me start with the cadence of conversations with the operator, which I would describe as very regular. Our asset management teams are in – I don't recall a constant contact with our operators. What absolutely is the fact is – the market changed pretty rapidly in the third quarter. And even the boots on the ground as I described the operators were surprised by the nature of the change.

And particularly, the occupancy trend in September, which we highlighted in the prepared remarks. And so it's really that dislocation as we then review the outlook – the entry into Q4, the outlook for the year that changed and those circumstances changes pretty rapidly.

So what are we doing about it, the second part of the question. Certainly at an operational level, all of the operators are actively engaged in, I'd call them, asset-by-asset recovery plans, very much focused on revenue. And we continue to engage with them on that.

At a portfolio level, clearly, there are different options we have, including selective dispositions of potential underperformers as we look forward and see the profile in various submarkets. Capital investments, clearly, as we think about ways to continue to compete and be competitive in select markets. And continue to invest behind opportunities that drive growth. So it's the same playbook as you would expect and I see the frequency of dialogue is very, very regular.

Nick Yulico

I guess just in itself and I guess just one follow up there. I mean you talked about, Bob, that negative leasing spreads widened in the quarter instead of tightening which you were forecasting a tightening. What gave you confidence to forecast a tightening, was that something you are seeing? Is it something your operators were telling you and how did you end up seeing that negative surprise in the quarter?

Bob Probst

Great. So if you back up to our guidance earlier in the year and then reaffirms last quarter, in the last half of last year, the second half of last year 2018, we did see aggressive price discounting and we saw the releasing spreads widen in the second half as a consequence. And we saw occupancy sequentially grow nearly 80 basis points in the third quarter last year. So that was the backdrop.

In that context, all of our operators consistently believe the ability to price, I'd say, more surgically in this second half, and therefore, not have a significant discounting environment and have an improved narrowed releasing spread. That was the predicate of the prior guidance.

What indeed has happened is and it's really, I call it the cumulative effect of the openings that have been coming online over the course of time has driven that to be more price competitive, more widespread in the discounting. And therefore, as you see in our rate, sequentially, a softening in REVPOR as opposed to growth in a year-over-year wider releasing spreads rather than narrower. So, fundamentally, in the third quarter, that was a change both in the market and versus our expectation.

Operator

Thank you. Our next question comes from Nick Joseph with Citi. Your line is open.

Michael Bilerman

Hey. It's Michael Bilerman here with Nick. Good morning. So, as sort of piecing some things together backing away from the growth for next year, how much of that is the weaker 3Q and 4Q results playing into the run rate versus the expectation that same-store NOI for SHOP appears that the rest part of your businesses, which is almost two-thirds of the company, are doing fine and are actually probably in line to ahead of where your expectations are.

So, how much of this shift is due to the run rate versus the expectation that SHOP is going to be negative again in 2020 off of a down, call it 5% this year?

Bob Probst

Yeah. I mean – Michael, thanks for your question. I'm not sure I totally understand it, but in terms of…

Michael Bilerman

Well, I guess, I mean, just from the standpoint of the Street right now as a $3.93, you're going to do $3.83 for earnings this year, right? So, the Street was expecting up $0.10, which is probably somewhere realm of where you thought you were going to get growth in FFO.

Now, you're saying you're not going to have FFO growth and, well, there's two parts of it, right? It's getting slower into the year because you've had very weak SHOP results. So, the run rate is lower. That accounts for, I don't know, I don't know if that's $0.05 or $0.10.

And in addition, I don't know how much cadence you have for 2020 SHOP. And I know you're not giving 2020 guidance. But I don't know how much of your perspectives have changed in making the statement that you're going to defer to earnings growth, right.

So, arguably the number for next year is going to be below 383. And I'm just trying to piece together how much of that is the weakness that you have in the second half of this year what you experienced in the third quarter and what you're forecasting in the fourth quarter. And how much of it is a change to how you're looking at 2020.

Debra Cafaro

Okay. I mean basically what we want to do is address 2020 and our guidance and all the components when we normally do in the first quarter. And when we do that we want to have some of the key underpinnings of that including the 2020 budget, the rate letters, and so on, and see where we end the year. So, I would just defer that conversation. We want to give you the guidance and the parts when the guidance is ready and reliable for 2020. And that'll be in the first quarter.

Michael Bilerman

Maybe we can address it this way. So, you have an implied fourth quarter guidance of $0.88 to $0.94, right, based on what you provided for the full year and what you have year-to-date. That $0.88 to $0.94 is down from the $0.96, $0.97 that you've experienced in the prior two quarters.

Still a pretty big range, right, $0.06 is you're talking about 6%, 7% in terms of a range for the fourth quarter. And one would have imagined, you would have gotten the benefit of all the investment creative investments, accretive investments that you've made and closed recently.

So, maybe Bob you can walk through the delta of getting from 3Q reported FFO of $0.96 down to that $0.88 and $0.84 same store is effectively from what we can tell implying shot down about 4% sequentially down about 7.5% year-over-year based on your guidance numbers which would only be a couple of pennies so maybe we can start talking about that part?

Bob Probst

Yeah. I'll also address a bit of your first question. The lower finishing point this year is now embedded in our outlook and the implication for, therefore, 2020 is real. I mean the start point of where you finish as we're seeing in the fourth quarter fundamentally determines where we are in 2020 and we've lowered that start point. So that’s a fundamental input obviously into 2020.

Let's use the midpoint for easy math sequentially to the second part of the question which is a $0.96 in third quarter becomes $0.91 and $0.92 with rounding depending if you round up or 9 run down in the fourth and what's driving that and number one most notably is SHOP and property.

And that is the largest driver. We highlighted in the third quarter, we also had a term fee in R&I of roughly a $0.01. And between those two things, therefore, property and that term fee, you bridge the gap. So that’s the sequential midpoint description. And again the range is really predicated principally on the SHOP revenue out turn in the fourth quarter.

Michael Bilerman

And you think it’s a benefit of…

Bob Probst

Hopefully that’s more helpful than my answer to you.

Michael Bilerman

Yeah. And I understand that once you go down SHOP in the lease term fee, but you bought a significant amount of assets, you did the loan on colony, you raised equity in June that was a creative, like all of that should – you get debt refinancing, all of that should help sequentially.

Bob Probst

Well, so yeah. That was I mean, Colin, it was in the third. And Le Groupe Maurice is expected to be breakeven in 2019.

Michael Bilerman

Right.

Bob Probst

So, I think you're – those are reflected. And so, Bob, simplification of third to fourth are the – represent the principal drivers.

Operator

Thank you. Thank you. Our next question comes from Vikram Malhotra of Morgan Stanley. Your line is open.

Vikram Malhotra

Thanks for taking the questions. I have two questions. So just first going back to the question on FFO growth. I'm still not understanding, if you're benefiting, I get Maurice is not a positive this year, but it should be a positive next year. Colin, you should be a positive next year.

Your NOI in office and MOB should all be positive next year. So, effectively, I'm not sure how you're projecting SHOP into 2020 right now to come to know growth. If in the third quarter itself things are so volatile and it's just tough to get a near-term read, I'm not sure how you're forecasting into 2020 what it looks like. So, if you could just walk us through the of that no growth in FFO, like, what's – in that statement, what's embedded in SHOP for next year?

Bob Probst

Well, I'd really be delighted to do that, and we are going to do that in a disciplined way with all the components when we give our 2020 guidance as we historically have done in the first quarter. And so done in the first quarter. And so I know I'm asking you to be patient with us, but that is a disciplined process that we have historically gone through after we see how the year ends.

We want the guidance to be ready and reliable. And so I would encourage us to talk about it when we give 2020 guidance in the first quarter with all the parts that you're looking for.

Vikram Malhotra

Okay. Fair enough. But just because you said, no asset for growth and obviously people are going to question. So fair enough.

Bob Probst

Yes.

Vikram Malhotra

We'll wait for the details. The second question -- really is just around the shop, the changes that you're articulating in senior housing and there are two parts if you can bear with me. One on the shop side.

It's obvious that there's probably a need for more real-time data or maybe faster data because things could be so volatile as they were in 3Q. So apart from like longer term things like putting in CapEx, etcetera, and selling assets like what can you do or are you contemplating to get data in a more real-time manner in the shop side?

And then on the Triple-Net side, if you could address as you've baked in $10 million of potential restructurings. But if you look at the EBITDAR and in-place EBITDAR, I'm assuming is well below 1. I know you have several years on some of your leases, but how should we get comfortable that additional lease restructurings will not be required in 2020 and 2021?

Bob Probst

Yeah. I'll take the first. So reminder, obviously, we are reliant in the shop business on the data from our operators. As you speak to real-time, that is by definition coming through our operators and therefore there is by definition going to be some timing between their receipt of that [ph] I would say the clock speed is pretty good.

That said, there are indicators which is such as occupancy which one can see more call weekly. On the other hand, things like REVPOR and your OpEx really are both intra quarter quite dynamic, but also you really need to see the whole quarter play out before you can get a strong beat on it.

So I would agree fully that data continues to be in the industry, a challenging one that we continually endeavor to get better on. But in some cases such as NOI and OpEx, you really need to see it through the quarter. Debbie, you want to take the second?

Debra Cafaro

Yes, in terms of the triple-net portfolio, we've given our expectations for 2019 with approximately a net $10 million impact. We're materially on track for that. In terms of looking forward, again that's a part of the 2020 guidance that we want to provide to you when we provide all of our guidance and we have a significant amount of our triple-net Senior Housing tenants.

The likes of which is the largest one which obviously has a very significant ability to pay rent. And that's a large portion of the Senior Housing triple net and many other operators who have other credit in our coverage, where we feel comfortable with the go forward rent obligations.

Operator

Thank you. And our next question comes from Richard Anderson of SMBC. Your line is open.

Richard Anderson

Thanks good morning.

Debra Cafaro

Hi, Rich.

Richard Anderson

Hi. How you're doing? So I know – just out of curiosity, I know you typically wait till the first quarter for guidance, but these aren't typical times, I guess, and I wonder if you would give any thought to maybe being a little bit early in that process, say pre end of the year to provide an outlook into 2020 sooner than later, just because of the uniqueness of the situation? I would just offer that as a suggestion, but not a question.

My question really is 4% to 6% for the five years, how much is that disrupted from your Investor Day? Do we do we assume that as a different range going forward or do you stand by the five-year outlook still?

Debra Cafaro

Yeah. Thanks, Rich. I'll let Bob here follow on. But basically, right now, our real focus is closing out 2019 in the way that we've outlined here today, taking steps to improve performance and also position us for the upside in senior housing.

Obviously, to the extent that – and we want to get a good 2020 and we want to have it be given to you, which you deserve when it's ready and it's reliable. And there are many inputs that will go into that. And so, obviously, to the extent that our 2020 outlook has changed, due to changing circumstances, that would have implications for the five-year outlook.

Richard Anderson

Okay.

Debra Cafaro

But let's start with getting you a good 2020 that you can feel good about.

Richard Anderson

Okay. Bob are you going to add something? I missed it. I didn't know.

Bob Probst

No. It's been entered…

Richard Anderson

Okay. And then last and Bob you'd said the market changed dramatically in the third quarter. And I'm curious as to perhaps why. The supply has been high, but it hasn't really changed much from the second to the third quarter. I guess you're saying the behaviors of your competition have changed and would you say that this is perhaps a condition of the geographical footprint of yourself or do you feel like this is more of a holistic sort of national conversation.

Bob Probst

Yeah. Well, you rightly say. We knew supply was coming. That’s not news to us. I think it's the cumulative impact of what we've been seeing over the last years, which seems to have taken a bigger impact. Made the market tougher particularly on selling. And then within that how our operators and others compete particularly on price.

It seems they have become tougher in the quarter. It is clearly thematically when you look at the NIC data which again is the only industry data that we see, there was some sequential occupancy growth. Ours in fact was better than that. We look Q2 and Q3. But both pricing as measured by NIC and occupancy continued to be flattish or challenged.

So, without better industry data than that, it's hard to say really overall for the market. But certainly in our portfolio in the markets in which we compete, we did see a change and how we need to compete to that needs to change.

Richard Anderson

Okay. Fair enough. Thanks very much.

Debra Cafaro

Thank you, Rich.

Operator

Thank you. [Operator Instructions] Our next question comes from Michael Carroll of RBC Capital Markets. Your line is open.

Michael Carroll

Yeah. Thanks. Bob, I just kind of want to dive into that last question that Rich had related to the impact of supply. Was there more supply delivered this quarter or was the issue that's the – your competitors were just more aggressive on price and Ventas was not and you lost more occupancy relative to those competitors.

Bob Probst

Yeah. Well, it's always important to know that the openings in the quarter though important, it's not a flash to bang that's immediate. It takes time for those to lease up. And historically, we've talked about 18 to 24 months. I don't know if that rule of thumb applies anymore simply because the cumulative amount of new openings has been so significant over the last couple of years.

So, I would not – I would point to the cumulative impact as opposed to some elevation in the quarter itself. Then how folks compete, by definition, new openings come in the market in the submarket. The whole submarket for those existing operators will see an occupancy drop. It's kind of – on a pro-rata basis. It's then how do you compete within that.

And I would say in certain geographies, we did lose share. I think it's fair to say and hence back to the asset-by-asset view of how do we compete in pricing within that most notably. And secondary markets, if I were to point to markets, where we saw – again, these are perhaps more price sensitive markets as well but also, where the deliveries came first. That is where we're seeing the greatest price competition and the greatest impact on REVPOR to releasing – and NOI. So, hopefully that answers your question.

Michael Carroll

Yeah. And then what, I guess, talking about the I think the changes that I think Debbie made in her remark and I think that you referred to in the Q&A also, I guess what specific changes does the Ventas pursuing? I think the ones that you highlighted seemed like stuff that the company has always done investing in the properties and pursuing I guess pruning. Are you planning on cutting rate also to gain more occupancy, is that one of the more meaningful changes?

Bob Probst

Yeah, Mike, I'll call it the operational strategy, certainly incorporates more aggressive pricing in the fourth quarter and an effort to win that resident and so that is definitely in the plans as distinguished by what I'll call them at the overall portfolio level, actions that we can take which you rarely mention. So at the operating level, at the asset level, pricing is critical for us to compete in changes of the trajectory.

Michael Carroll

Okay. And then were you surprised that operators started offering more concessions. I think that I believe Ventas as mentioned and obviously other REITs and operators have said that the market has been fairly disciplined in not offering those concessions that something changed this quarter versus prior quarters.

Bob Probst

Yes, by definition and that was one of the three predicates of why the guidance is different for us than our assumption. Again last second half of last year were widespread discounting, expectation by our operators and us and others I believe that, that would be more targeted in the third quarter in the back half of this year, and that’s not what we're seeing, quite the opposite, a widening in a more competitive market in the pricing, so quite different.

Debra Cafaro

Right, right, and as a result even though sequentially we grew more than neck in the third quarter, we did not build occupancy with the seasonal lift and power that we would typically.

see as a result.

Bob Probst

Right. Hence why we may get up year-over-year.

Operator

Thank you. And our next question comes from Jordan Sadler of KeyBanc Capital Markets. Your line is open.

Jordan Sadler

How are you? I'm not going to beat a dead horse. Can you – can we switch over to the triple net portfolio the same-store NOI growth there, guidance for the full year moved up pretty significantly by about 125 basis points I think at the midpoint. What sort of that – driving the change there? I feel that's like a pretty stable predictable business.

Bob Probst

So we're still alive and kicking. So you're not beating a dead horse. In terms of a triple net, I would just say that as we said at the beginning of the year and in Bob's remarks that some of the – all of the $10 million net impact in NOI on the discrete set of assets that we've talked about is in non-same store and FFO, and therefore outside of the triple net pool. And we had talked about that I think at the beginning of the year when we made the simplifying assumption around the net $10 million.

Jordan Sadler

Okay. So it's that $10 million was previously in and now that's out? Did I get that right?

Debra Cafaro

Remember, we talked about it being a simplifying assumption within. But we’ve noted that if there were dispositions or transitions, then it moves to another category. And that's what we've called out this quarter.

Jordan Sadler

Okay. So that's out. How much of the $10 million in adjustments is crystallized at this point? Last quarter, I think you'd said $3 million, Bob. And then what is – what's the annualized impact of the total $10 million as…

Bob Probst

Yeah. During that – yeah. To keep it simple, I'd say, the fourth quarter impact is approximately $4 million and $10 million is the 2019 impact.

Jordan Sadler

But if I think about the…

Bob Probst

Penalized…

Jordan Sadler

…annualized impact of the $10 million adjustment, so the incremental adjustment to 2020, for example, the annualized impact from the $10 million adjustments will be $25 million. So an incremental $15 million the next year.

Bob Probst

I'm not sure how you got that number.

Jordan Sadler

Well, the annualized adjust -- is $10 million an annualized number?

Bob Probst

No.

Jordan Sadler

If the adjustments…

Debra Cafaro

No. It's the 2019 number and it started in the back half of the year principally and is $4 million in the fourth. So that's not an annualized number.

Jordan Sadler

Right. So I'm just curious if you annualized, what the rent adjustments were, right? So annualized rents are…

Bob Probst

Yeah.

Jordan Sadler

Falling by a total of $25 million as a result of those adjustments or it has to be more than $10 million obviously, right?

Bob Probst

Yeah. Correct. And you can annualize $4 million.

Jordan Sadler

Okay. That's just fine. Okay. And then the other guidance thing that I noticed in the guidance was that previously you had maintained that there were no changes to the holiday lease contemplated in guidance. Is that still the same? Okay. I just didn't see that called out. And then, lastly, on the balance sheet. Leverage 5.9 times, did you guys look to the ATM at all in the quarter or since quarter end and then how should we be thinking about the balance sheet going forward, Bob?

Bob Probst

Yes. So 5.9 really a function of the close of LGM in the quarter so very much as anticipated, very much within the range of five or six that we've operated within a long time. So, we're quite comfortable there. We did not incrementally do ATM in the quarter. We had, last earnings call, described a little that we did early on in the third quarter, but we didn't do any after that. Simply, we didn't have uses, so that's the rationale. But we're very – we're comfortable with where we are.

Operator

Thank you. [Operator Instructions] Our next question is from Steve Sakwa of Evercore ISI. Your line is open.

Steve Sakwa

Thanks, Debbie and Bob. I just wanted to maybe switch to expenses in the SHOP portfolio and just sort of what you're experiencing on the labor front and sort of how you maybe see that trending as a positive negative or kind of maybe consistent moving forward.

Bob Probst

Yes, Steve. So, a nice thing to talk about – I'm happy to talk about the OpEx. We grew OpEx year-on-year in the third by 1.8%. What continues clearly is underlying wage pressure, kind of mid-single digit sort of range when you look at a per-hour basis, and we've described how consistently we've been able to manage that number by staffing operating model at the asset level, procurement and managing indirect costs and, as a consequence, keeping that overall growth below 2%, and that is year to date pretty consistently what we’ve seen across the portfolio.

Now, clearly, if and if the economy continues as is and if continue labor pressure in wages in the mid-single digits range, we’ll need to run that same playbook to keep the OpEx in the range that we've had. But it's been – I give lots of credit to our operators doing a fantastic job on managing the OpEx base and keeping that below the inflation.

Steve Sakwa

Okay. And I guess the second question on the R&I business, Debbie. As you sort of look out, just sort of the opportunity set today, I mean, how would you sort of describe it versus three to six months ago?

Debra Cafaro

I'm going to turn that over to my colleague John Cobb, who’s on the ground, our Chief Investment Officer.

John Cobb

This is John. I mean, I think, what we're seeing is – we're seeing our pipeline is still good on the development side with our friends at Wexford. We're seeing lots of activity and so forth there. We're still looking at a fair amount of acquisitions in both core markets and also in our university markets. Those are become a little bit more competitive, but we're definitely seeing a fair amount of activity.

Debra Cafaro

We have a great competitive position in the university research and innovation business, and John and the team, are doing everything humanly possible to maximize that competitive advantage that we have.

Steve Sakwa

I guess just to quickly follow up on the competitive nature, and sounds like on the acquisition front, is it new players coming into the business or just trying to get a little more color on maybe what's happening to pricing on those assets?

Debra Cafaro

I mean, there's been some new competitors. There's always been competitors in all the industries that we play in. It just happens to be there's a little bit more right now in life science, a couple private equity [ph] have formed some funds. But it's no different than, that I would say, in the last six months. I mean, it's always been competitive, it's just become a little bit more price compression.

Operator

Thank you. And our next question comes from Joshua Dennerlein of Bank of America Merrill Lynch. Your line is open.

Joshua Dennerlein

Good morning, guys.

Debra Cafaro

Good morning.

Joshua Dennerlein

In the opening statements on have you mentioned the ESL was weaker than expected and maybe if you can maybe add – if you removed that, it would be about 100 basis point. Did I heard that correctly? Can you maybe give some more color on what's going on there and if that's just for them or their markets or…?

Debra Cafaro

Yeah. So, you're right. We did call out 100 basis point impact to the Q3 result from ESL. Thematically, what drove the ESL result is not different than what I talked about overall in terms of occupancy and pricing. I'd say a couple of things that are unique or discrete in this case. One is the footprint, which tends to be more secondary, tertiary markets.

And two is ESL still I would say in the process of implementing new models as it has had these assets and taken them over including a new pricing model, which in the midst of, in the context of the tough market, made it even tougher for ESL in particular. But generally thematically, the drivers are the same.

Joshua Dennerlein

Okay. And are the drivers that were impacting SHOP this quarter consistent with what was going on in the net lease senior housing portfolio? Just trying to get a sense of where like 3Q 2019 coverage ratio might [ph] shed 00:52:55 out and maybe if the evolution got kind of going forward. And should we might expect that to trend closer to 1% or maintain the 1.1%?

Debra Cafaro

Well, I would say the industry irregardless of or irrespective of business model is the industry. So, to the extent that the triple-net operators are seeing the same market conditions and cash flow at the assets as a similar profile, then, yes, that would have a impact on coverage. As you know, we report on a delayed basis in terms of coverage, and we haven't got yet the results from all our operators for triple-net, so too early to say. But clearly, the underlying market is what drives ultimately that number.

Joshua Dennerlein

Okay. And you're still confident that those conversations over time would kind of be in a comfort range where you feel like the leases could kind of consist as they are or at what point would you like consider taking action?

Debra Cafaro

Well, again, I would say in a normal market, if you're looking at EBITDA coverage over a long period of time, you would want to see those in the 1.2% to 1.3% range, maybe 1.1% to 1.3%, which is where we are. Over time, it really depends how you address different things depending on what the circumstances are, what the credit is, whether it's – whether they're pooled leases, what other credit supports you may have and so on. And those really determine how you would approach the situation if coverage becomes more compressed.

We've talked about how we've addressed to the street pool of those in 2019, and I think very effectively, and at the largest percentage of this pool of triple-net senior housing operators, we're quite comfortable with.

Operator

Thank you. And our next question comes from John Kim of BMO Capital Markets. Your line is open.

John Kim

Thank you. Question on the lack of enterprise growth next year, does this contemplate any -- hi, Debbie. Does this contemplate major disposition shrinking the company now or any significant amount of operating transitions that you're…

Debra Cafaro

It's a fairly steady state. Look…

John Kim

Okay, still seems difficult to get to that lack of earnings growth. I mean I think this question was asked earlier but is there going to be another significant rent relief that you had, some under the $10 million that you had this year and it looks like for instance on the LTAC the triple-net coverage went down a notch. I'm wondering if that's also part of your guidance?

Debra Cafaro

I'll touch on the LTAC, when the LTAC was literally a matter of basis points that made the round change driven by both rent in and the asset performance, but it's literally around, so there's no fundamental change in the LTACs.

John Kim

Okay, second question is just a follow up on ESL. It still seems like the 100 basis point impact on your SHOP is pretty significant, given the size of the [ph] can you just verify how significant they are as part of your SHOP, same-store SHOP portfolio and any parameters on how -- the performance was?

Debra Cafaro

Yeah, roughly 10% on a number, a little bit less of the SHOP portfolio is what they represent. Clearly as you say 100 basis points is a big impact. And so that year-over-year performance is double digits down. It's just by definition the math.

So quite materially and quite – quite material and quite notable. But again, it comes back to the same drivers. I would highlight again, secondary and tertiary type business models, slightly lower margins as a consequence of lower outpour in dollars, so a bit more operating leverage as well.

Operator

Thank you. [Operator Instructions] Our next question comes from Steve Valiquette of Barclays. Your line is open.

Steve Valiquette

Hello. So just a few more questions here on senior housing pricing dynamics. And I guess I'm curious whether one or two operators in particular that maybe triggers some of the more aggressive pricing or was it more wide spread across a whole bunch of different companies with new supply?

And also, just to confirm, did you see any acceleration in situations where pricing became more aggressive from existing competition or was the more aggressive pricing primarily from new supply in the various markets as they tried to build occupancy? And well finally, would you consider the new pricing to be irrational just to – not stir the pot too much, but has it gone to irrational levels or how would you characterize it? Thanks.

Bob Probst

Well, I think – first of all, there – I won't point to any bad actors say for example, there's not one or two that are driving the market. I think again, when there's a cumulative significant amount of new openings, of course you have the new building opening which it's quite rational to be aggressive on price to fill up the building which is a relatively small investment relative to the cost of building and in opening the community.

So, that's not irrational. That certainly drives price competition. And that's not a new insight. We've seen widening releasing spreads kind of talked in the mid to high single-digit range lower or declines. And that has accelerated. So, I'd say just taking what we've seen and amping it up, amping it up. And again not because of any one factor, I think but the cumulative impact of what's happened over the last years.

Steve Valiquette

Okay. All right. I appreciate the extra color. Thanks.

Operator

Thank you. And our next question comes from Nick Joseph of Citi. Your line is open.

Michael Bilerman

Hey, it's Mike Billman 00:59:57 again here with Nick. I was wondering just, Debra you mentioned as you talked about 2020 a steady state and the deferral of the growth from an enterprise, from an FFO perspective next year largely was driven by the SHOP change, which we spent a lot of time talking about on the call.

One of the things you talked about in the Investor Day was having $2 billion of net investment volumes. And then I just wanted to understand, when you're walking back the growth for next year, does that still assume $2 billion of net investment volumes.

Debra Cafaro

Yeah. Again, in terms of looking at 2020 and giving guidance or expectations and the components thereof, I am – I feel very responsible to all of you to do so when that is ready and reliable. I couldn't feel more strongly about that Michael as you can imagine. In terms of the deferral of enterprise growth, I would say that when I said steady state, it's simply what we have now, if you want to think about that.

Michael Bilerman

Well, I'm just trying to piece together, and maybe the bigger question is this is an unfortunate situation that you have to walk back, and SHOP is much weaker.

Debra Cafaro

Yes.

Michael Bilerman

…than you expect, and unfortunately you have to manage other managers, so it's not even something internal that you can just fire someone or discipline someone for a bad performance or oversight. But if I look at sort of the guidance and the FFO trajectory, you had an issue last year where numbers have to come down pretty significantly for 2019. You had an Investor Day where I would say you did the reverse which was get people really excited about the future growth profile of the company.

You started talking down numbers a little bit on the 2Q call, went further at a conference in September, same things were a little bit weaker, and then dropped today weaker result and a significant change for 2020.

And so I can respect the level of wanting to be responsible and get all the numbers in action, but this is not a onetime event. And so I really would like to understand from an enterprise perspective, what else are you doing. You talked about fixing things and maybe doing more dispositions or capital, but more so from your own guidance and financial perspective, what has the last 12 months taught you from that side?

Debra Cafaro

Yes. It's amazing to be at this stage and grade and still be learning good lessons I would say that again, we've always been known over long periods of time to be reliable and to be forthright. And those are values we hold dear.

I would say that one of the lessons is certainly that in a dynamic market like we have now, we have to be disciplined even if people are asking for information earlier or more detailed information, we have to be more disciplined to make sure we have all the inputs that we believe are necessary to have confidence in what we are telling you.

And that lesson is reinforced by today. And I – we have – we feel and have a deep responsibility to you and to our shareholders and to all of our stakeholders, and we – that's how I would characterize really what we will do differently going forward and what we've learned.

Bob Probst

And then I think the key point that we're all trying to sort of isolate is you've had the confidence to be able to tell the market today we're not going to grow FFO in 2020 based on our trajectory of SHOP that we experienced in the second half and likely some element of what we expect for SHOP next year. And we're going to – please hold off until January when we'll give you all the details.

I think some of the other pieces in coming to that comment like $2 billion of investment, that's where I think we're trying to put the pieces to the puzzle together to at least understand you coming and making the declaration of no growth for next year, what does that mean?

Does that mean that you should assume zero acquisitions which is by the way historically the way you used to do guidance versus Investor Day were you layered that into your growth profile? And so I think there are some – it's like apples and oranges, and I think we're all just trying to understand the meaning of your growth and what's embedded generally speaking in that, what's in and what's not.

Debra Cafaro

Right. And what we can say is that that growth will be deferred. We – there is a significant amount obviously that is driven by our senior housing. And with respect to the rest of it, we do want to come back to you at the right time and give you some of the more underpinnings of a range…

Michael Bilerman

And then just…

Debra Cafaro

…and what's the component, sorry, that go into that range.

Michael Bilerman

Right. And so I want to make sure that when you said steady state, so in your comment about growth for next year, would exclude net investment activity – your comment about not getting the growth, does that – is that include – because obviously, that could be accretive to numbers. And I just want to forget about all the other components.

That to me is a major one because it could get anywhere from $0.05 to $0.10 to earnings if you're buying $2 billion of assets financed accretively. So that – because that to me seems like a major one just to make sure we understand.

Debra Cafaro

I mean we're – as I said, and you've interpreted correctly Michael, in terms of steady state, we're just thinking about effectively organic without additional acquisitions, dispositions, capital markets etcetera.

Michael Bilerman

So, all that could potentially be additive to whatever outlook. But on a steady state basis, current portfolio, current same store, that would lead to earnings FFO being down next year. From that point, you're going to work your ass off to improve operation to SHOP and work with your managers, find accretive investments. And so there could be a chance, a hope that things could turn out better than that expectation. Is that a fair assumption?

Debra Cafaro

Well, we are certainly focused first and foremost on delivering the 2019 we've outlined here. And we will absolutely the whole team is committed to working as hard as possible to improve performance and to get the benefits of senior housing upside, external acquisitions and so on. You have our commitment for that.

Operator

Thank you. And our next question comes from Derek Johnston of Deutsche Bank. Your line is open.

Derek Johnston

Hi. So we've covered a lot and I apologize if I missed this. But what are some options to optimize the SHOP portfolio? So, as you look forward, how do you balance the possible disposition of underperforming assets versus reducing dependence on senior housing through growth and R&I and – or maybe hospital investments, if you could speak to that for a second.

Debra Cafaro

Right. I mean there is a definite balance here because the leading indicators in senior housing continue to be very positive. There is a powerful upside in senior housing. We certainly can always optimize the portfolio and do things to improve performance. We also want to be there and have our shareholders be there to enjoy that powerful upside as it materializes. So there definitely is a balance there as you've pointed out.

Derek Johnston

Okay, but as far as growth in R&I we expect that shut to continue, but how about [indiscernible] investments in general? Is that a possibility as well?

Debra Cafaro

Again, that's, I mean Bob talked about Ardent's performance which has been good, that investment has done very, very well. And our new Montreal investment of course has five assets underway that we'll continue to invest in. So there are many good aspects of the portfolio in the enterprise that are going very well. And we can obviously continue to build on those strengths while we also address where we are in senior housing.

Operator

Thank you. And our next question comes from Lukas Hartwich of Green Street Advisors. Your line is open.

Lukas Hartwich

Hi. On SHOP, do you have any ideas why there is such a large disconnect with the NIC data performance?

Debra Cafaro

Well, on the one side, on rate, I would tell you that the rate from NIC is not effective rate, it's not REVPOR. We really disregard it. It's the rack rate basically. So I think that that really should be kind of off the table. In terms of occupancy sequentially, we built occupancy 40 basis points, they built it 20, the difference is a year-over-year comparison

Bob Probst

And I would only add that the coverage of [indiscernible] is not 100% of the country to certain geographies. So, the representative, I think not complete.

Lukas Hartwich

Great. And then just one other, can you compare and contrast the CapEx spend that is going into your SHOP and triple-net senior housing portfolios? Well, we know that for steel for example in the triple-net portfolio is investing a significant amount in CapEx. And through our agreement with them, we've committed to keep the assets competitive in their markets by doing some yielding investments in capital as well.

Most of the triple-net leases have requirements for CapEx spend. I would say in general, our shop portfolio, which is higher end and higher rate by and large, we do tend to spend, call it, $2,500 a unit. So, very significant to keep the assets in good condition and with a high price point for the resident.

Operator

Thank you. And our next question comes from [indiscernible] Stifel. Your line is open.

Unidentified Conference Call Participant

So, I'm going to try and get a little more detail about the SHOP occupancy only because there seems to be a dramatic shift in occupancy from mid-core to the end of the quarter that just no new supply doesn't really seem to account for. So, can you give us a little more detail without confined to specific property and operators or geography or is something watered?

Bob Probst

Yeah. So, it is a significant change and it was significant even within the quarter and most notably in September. And that was a trend which is true across all the operators that we have in our SHOP portfolio. And at least in my experience, it’s pretty unprecedented.

So, it's not specific to a geography either. We saw, again, I mentioned secondary and tertiary markets where more supply has come online earlier, is where we see the most acute impact. But even in primary markets, you see similar trends.

So, that's why I keep coming back [ph] Chad to this notion of a cumulative effect. Is it a capitulation of some kind or not? Only time will tell. But it is notable in that in its consistency as we look at it in different ways.

Unidentified Conference Call Participant

All right. Then if this is wider spread, how has Ventas' expectation of a weaker SHOP in 2020, how does it alter your view of potential senior housing acquisitions in 2020?

Debra Cafaro

Well, again as we talked about as it relates to 2020, we're not factoring in any of that in the conversation that we've had today. Over the past several years, we've been quite judicious about our senior housing investments. The vast, vast, vast majority of our investment activity has been in growing R&I pipeline and obviously non-US Montreal based for example the LGM investment.

And so I would say our expectation about investments is really based on a case by case basis. We remain positive on the fundamental long-term growth in the senior housing business. But we've been very judicious about our investments in the senior housing business over the past couple of years.

Unidentified Conference Call Participant

All right. So what do you think the optimal portfolio mix looks like down the line in two or three years?

Debra Cafaro

Well we've talked about this before, and I would say that we hope to continue building our university-based research and innovation business where we expect to have excellent risk adjusted returns. We've always thought that SHOP should be in the US certainly, somewhere between 20% and 35% and that's been consistent over time.

And I would continue to endorse diversification in all its manifestations which again has the company is really benefiting from right now as you've seen the outperformance from office. Some of the healthcare triple-net lease business and so on.

Unidentified Conference Call Participant

All right, I'll leave it there. Thanks.

Operator

Thank you. And our next question comes from Michael Mueller of JPMorgan. Your line is open.

Michael Mueller

This isn’t a 2020 question, but given the wide performance variance between the primary markets and the secondary markets, should we assume that you're going to shrink the secondary markets over time and ramp You're going to shrink the secondary market over time and ramp up asset sales?

Debra Cafaro

I think as Bob said, if this is an outgrowth of earlier development in secondary market that's now being felt, we want to make sure that we're taking operational action, pricing decisions and so on to compete effectively in the market while also preserving that powerful upside.

And so those may be the first two to change on a positive note, and we will look at all of those markets and all those assets on a case by case basis both operationally and strategically. So I don't think your conclusion is really directionally how we're thinking about it.

Michael Mueller

Okay. Got it. And then the negative rent spread, can you put some numbers around that just in terms of how they've trended?

Debra Cafaro

That’s a Bob question.

Bob Probst

Sure. Yeah. Last year, I would call it in the 7% range. This year, closer to 10% down.

Michael Mueller

Got it. Okay. That's it. Thank you.

Debra Cafaro

All right, Mike. Thanks.

Operator

Thank you. And our next question comes from Daniel Bernstein of Capital One. Your line is open.

Daniel Bernstein

I'll still say good morning. The sun is still shining upside.

Debra Cafaro

Good morning.

Daniel Bernstein

Good morning. I guess I have a question on that early supply and some of the rate pressures out there. Is it stemming from the merchant builders [ph] where the new owner operator? Well, the asset came online in 2016, and you're three years in and you're not stabilized, you're coming up against some of your – probably your construction debt covenants. Is that where the pressure is emanating within the industry from kind of the merchant builder or is it – again, I'm trying to understand how broad based the way pressure is out there.

Debra Cafaro

Yeah. I think it's all the above, to be honest with you. It's not again specific to anyone, at least as we see as anyone, operator or owner. It's more of an industry commentary than anything and geography specific conversation.

Daniel Bernstein

Okay. And then, I assume it's more on the AL side than the IL side or again this is kind of everywhere?

Debra Cafaro

Yes. That foreign distinction -- yeah, absolutely. It's definitely AL. Again, that's where the supply has come. And where the starts have gotten the lowest which is...

Chris Cummings

Right. And the most notable improvement, nine years low, I think, and the latest data the lowest to nine years. And so, IL is performing pretty well, actually. It's the AL that's seeing the pressure.

Daniel Bernstein

Okay. And so, does that, nothing – we're not going to get to 2020 acquisitions or guidance or anything like that, but from a – just a broad perspective, it would – does that then leave you more inclined to say continue to buy and build assisted living given where the starts are and again kind of continue down the path of more exposure versus triple-net or has something ancient in maybe where you would want to invest and how you would want to invest in seniors housing.

Chris Cummings

As we've talked about in terms of our investment strategy, we are positive on the long-term fundamental outlook for senior housing. We have invested judiciously over the past few years. We're building our research and innovation business with universities which is our number one priority, and we'll continue to look at investments on a case by case basis as we see good – what we believe is good risk adjusted return.

Daniel Bernstein

Okay, okay, I guess we’ll continue the conversion off line as it’s getting late.

Chris Cummings

I look forward, I look forward to it.

Debra Cafaro

So I wanted to thank everyone for their patience and participation in this call. As Michael eloquently said, we are aligned and are committed to working as hard as we can on behalf of our shareholders as we always have. And we really appreciate your continued support and trust. So we look forward to seeing you in November. Thank you.

Operator

Ladies and gentlemen, this concludes today's conference. Thank you for your participation and you may now disconnect.