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Welltower Inc. (WELL) CEO Thomas DeRosa on Q3 2019 Results- Earnings Call Transcript

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Q3: 10-28-19 Earnings Summary

Press Release

EPS of $0.2308 misses by $-0.24 | Revenue of $1.27B (2.41% Y/Y) misses by $-67.57M

Earning Call Audio

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Welltower Inc. (NYSE:WELL) Q3 2019 Earnings Conference Call October 29, 2019 9:00 AM ET

Company Participants

Matt McQueen - General Counsel

Tim McHugh - VP of Finance and Investments.

Thomas DeRosa - CEO

Shankh Mitra - EVP & Chief Investment Officer

John Goodey - EVP & CFO

Mark Shaver - SVP of Strategy

Conference Call Participants

Vikram Malhotra - Morgan Stanley

Steve Sakwa - Evercore

Jonathan Hughes - Raymond James

Nick Yulico - Scotiabank

Jordan Sadler - KeyBanc Capital Markets

John Kim - BMO Capital Markets

Michael Bilerman - Citi

Rich Anderson - SMBC

Lukas Hartwich - Green Street Advisors

Michael Carroll - RBC Capital

Joshua Dennerlein - Bank of America

Steven Valiquette - Barclays

Michael Mueller - JPMorgan

Daniel Bernstein - Capital One

Tayo Okusanya - Mizuho

Jordan Sadler - KeyBanc Capital Markets

Nick Joseph - Citi

Operator

Good morning, ladies and gentlemen, and welcome to the Third Quarter 2019 Welltower Earnings Conference Call. My name is Shelby, and I will be your operator today. [Operator Instructions] As a reminder, this conference is being recorded for replay purposes.

Now I would like to turn the call over to Matt McQueen, General Counsel. Please go ahead, sir.

Matt McQueen

Thank you, Shelby and good morning. As a reminder, certain statements made during this call may be deemed forward-looking statements in the meaning of the Private Securities Litigation Reform Act. Although Welltower believes any forward-looking statements are based on reasonable assumptions, the company can give no assurances that its projected results will be attained. Factors that could cause actual results to differ materially from those in the forward-looking statements are detailed in the company's filings with the SEC.

And with that, I'll hand the call over to Tom for his remarks on the quarter. Tom?

Thomas DeRosa

Thanks Matt.

Back at our Investor Day in December of 2018, I laid out a growth plan for 2019. I'm pleased to say that we have met or exceeded this growth plan year-to-date and today, we again reported strong results, which are enabling us to raise the midpoint of our 2019 FFO guidance.

The optimism that I articulated last December had less to do with NIC data and more to do with a deliberate and often painful complete restructuring of all aspects of a company formerly known as Health Care REIT.

We made considered and sometimes tough decisions regarding Genesis, Brookdale, health lease and other legacy investments that could best be characterized as last generation real estate, bad capital structures, misaligned operating agreements, misguided private equity investments or frankly simply paying too much for real estate. It was sometimes painful for our shareholders, but this management team took actions that were in our shareholders' best long-term interest.

While we will never stop optimizing our investment portfolio, the dispositions as well as the acquisitions made in the last 3 years have significantly de-risked the enterprise. That is why today, our senior housing assets have positive growth, our long-term care assets have strong lease coverage, and our industry-leading MOB portfolio continues to perform and grow through acquisition and development.

Welltower has unique strategy that fundamentally views our health and wellness care delivery real estate as a platform like all successful platforms, this platform is able to deliver another level of value far beyond the value of the real estate.

This enables synergistic collaborations like CareMore Anthem, which we recently announced, attracts new senior housing operators this year alone like LCB, Balfour, Frontier, Atria, and Clover and has enabled our medical office portfolio to grow by approximately $2 billion this year and the year is not over.

As we continue to grow, we have strengthened our balance sheet, so we can continue to drive shareholder value in a measured way. Tim McHugh will now take you through a closer look at our third quarter financial performance.

But first, I need to mention that this is Tim's first official earnings call as Chief Financial Officer. I've had the pleasure of working side-by-side with Tim over the last 4 years and could not be happier to see him ascend to this leadership role at Welltower. A role we've been grooming him for since we stole him away from RREEF.

Over to you, Tim.

Tim McHugh

Thank you, Tom.

My comments today will focus on our third quarter results, our balance sheet and updates to our full year 2019 guidance. Welltower reported normalized FFO of $1.05 per share. Results were primarily driven by strong fundamental performance in our core portfolio and continued accretive capital deployment, slightly offset by $2 billion of property dispositions outlined last quarter, as part of our guidance adjustment and $62 million of loan payoffs yielding 9.4%.

Now let me provide you some details around our major segments. Starting with Seniors Housing Triple-net, with another consistent quarter was positive 3.4% year-over-year same-store growth driven by several development leases with fair market value step-ups. EBITDARM and EBITDAR coverages were flat and down 0.1 times respectively.

Turning to medical office. Same-store growth, a positive 1.4% in the quarter was below long-term run rate, but above our short-term expectation. We are encouraged by recent leasing velocity as back of vacancies resulted in a 40 basis points sequential increase in occupancy. Importantly, we expect same-store growth return to trend next quarter as cash rent commences in our newly leased space.

Next for health systems, which is comprised of our HCR ManorCare joint venture with ProMedica. This portfolio enters the same-store pool in the fourth quarter. We reported HCR ManorCare's trailing 12-month rent coverage of 2.15 times in the footnote on Page 1 of our supplement this quarter. The presentation is consistent with ProMedica's latest public presentation of the metric and is trailing 12-month coverage from 06/30/2019.

The coverage includes revenue and expenses under HCR ManorCare's core business lines including home health and hospice. This is consistent with how HCR's lease coverage has been presented by other public landlords in the past, and more importantly tied to how ProMedica itself reports coverage of Welltower's lease to its public stakeholders.

While a reported coverage does not and will not reflect any profitability beyond the cash flow of HCR ManorCare itself, the guarantee in our lease is pari-passu with the senior most claims on its parent company and our joint venture partner, ProMedica. Turning to long-term post-acute same store growth was positive 2.5% in the quarter in both EBITDARM and EBITDAR coverages declined 0.01 times respectively.

Lastly, our senior housing operating segment continued to perform above our expectations. The same-store growth of positive 2.8% in the quarter. As Tom alluded to, these results are a reflection of our continued focus on improving the quality of our portfolio from both the real estate and operator perspective. As I noted last quarter, our active approach to portfolio management may result in sequential changes to our same-store pool.

In 3Q, we had an eight-asset sequential change in our senior housing operating same-store pool. There were 15 assets removed made up of 11 Silverado properties in California that were transitioned to triple-net lease structure and four Revera properties in Canada that were moved to held for sale and subsequently sold in early October.

If these 15 assets had not been removed from the pool, same-store growth would have been positive 70 basis points higher than what we reported. Additionally, we added 77 properties to the pool this quarter, consisting of five acquisition properties, one redevelopment and one transition property, which all reach their fiscal quarter of operations for our same-store policy.

At quarter end, we had a total of 75 senior housing operating assets classified as transition properties. These assets began transitioning in the fourth quarter of last year, we'll start to re-enter the same-store pool in the first quarter of 2020; 46 of the 75 will re-enter the pool by the second quarter of next year in virtually all 75 will be in the pool by the start of the fourth quarter next year.

While a roll down in rent to EBITDAR has created short-term dilution over the past five quarters, we continue to expect these properties contribute meaningfully to cash flow growth in the coming years.

Turning to the balance sheet, we remained disciplined in our capital raising efforts taking advantage of historically low yield the investor grade debt market. In August, we came back to the market for the second time this year raising a $1.22 billion of debt with over 8 years of duration and a weighted average yield of just 2.87% proceeds from this issuance were used to refinance our 2021 and 2022 maturities.

As a result of this activity, we extended the average maturity and our entire debt stack by one full year. Additionally, we continue to access the equity markets during the quarter via our DRIP and ATM programs.

We believe that our disciplined approach through these mechanisms provides us with maximum efficiency and flexibility in match funding both our development and our highly visible investment pipeline. As such in the quarter and through early October, we issued approximately 4.5 million shares at a weighted average price of $88.54 per share for estimated proceeds of $395 million. As of today's call, through our afford ATM program, we have sold 6.1 million shares of common stock, but have yet to settle, representing $528 million of estimated proceeds.

This methodical approach to capital raising, a long-term asset recycling activity has allowed us to concurrently improve our leverage metrics, while further strengthening the quality of our portfolio. With a closing of the Benchmark senior living portfolio this quarter, we ended the quarter at 5.79 times net debt to EBITDA, which represents a roughly half churn reductions from the end of Q2.

We continue to be encouraged by the strong bid for our assets throughout our entire portfolio. We continue to view the disposition of non-core assets, as the efficient and effective way to capitalize the growing opportunities that we see. I reinforce that we are more than adequately capitalized to our capital raising efforts and asset recycling activities finance all near-term investment and development opportunities.

Lastly, I want to address last night's update to full year 2019 guidance. As indicated in our press release, we are tightening our full-year FFO guidance to a range of $4.14 to $4.18 per share, from our prior range of $4.10 to $4.20 per share.

With that change, the midpoint of our guidance has been lifted to $4.16 per share, which reflects better than expected portfolio performance, particularly from our senior housing operating segment. Further details regarding our guidance are contained in last night's press release.

And with that, I'll now hand the call over to our Chief Investment Officer, Shankh Mitra.

Shankh Mitra

Thank you, Tim and good morning everyone.

I will now review our quarterly operating results and provide additional details on performance, trends, and recent investment activity. We're delighted to inform you that every segment of our business has either exceeded our met our expectations this quarter. We came into this year expecting a slow and steady recovery to take hold in our senior housing operating our SHOP segment.

However, I have to admit for three quarters in a row, our SHOP results have exceeded our own expectations. Relative to our initial expectation - 2.5% to 2% NOI growth in SHOP for 2019, we have year-to-date delivered a solid 3% NOI growth, driven by strong pricing power.

Q3 was no exception driven by significantly better-than-expected U.S. results. Overall, same-store NOI was up 2.8% in Q3 driven by 3% revenue growth and partially offset by 3.1% expense growth. Though we experienced a slight decrease in occupancy, year-over-year, primarily driven by a Canadian portfolio were increased by overall sequential occupancy growth.

We continue to achieve very strong pricing power differentiating our extremely well-located and diverse portfolio. While labor cost inflation continues to be challenging with 4.8% year-over-year growth, we're encouraged by 4.4% compensation per occupied room or ComPOR growth in U.S. Particularly noteworthy was 30 basis points of sequential ComPOR growth, which is the best we have seen in the last five years.

Though, we have not and will not provide monthly results, in anticipation of questions, I want to point out that we did not experience sequential decline in NOI or occupancy on an intra-quarter basis. Occupancy continued to build through September following normal seasonal patterns. Our U.K. business continues to perform as expected.

Although same-store portfolio growth moderated, as we discussed last call, our overall U.K. SHOP NOI growth was close to double-digit. Canadian SHOP portfolio is still trying to find the bottom. This quarter we have been impacted particularly by new deliveries in Quebec. We're cautiously optimistic about our Canadian portfolio in 2020 from a growth standpoint.

Our U.S. portfolio shined through all the rhetoric around supply and labor cost inflation with 4.3% NOI growth in the quarter. We continue to see significant outperformance of assisted living relative to independent living and the gap widened to a multi-year high.

Top markets had a particularly strong quarter primarily driven by solid pricing power. Washington DC, Seattle, Chicago, San Diego, all experienced double-digit NOI growth this quarter. Several of our operating partners contributed to this industry-leading growth and I want to thank them on behalf of our shareholders. As we have said repeatedly, we own the best assets in the best markets; however, the hallmark of our portfolio is our 25 best operating partners.

The strong structural alignment between us and our partners is especially important when the industry fundamentals are not necessarily lifting all the boards. To paraphrase Warren Buffett, in these times of low tide, you get to know more about other people swim suits. To continue the team of operating partners, we are delighted to inform you that we have initiated a RIDEA relationship with New England based highly-reputed operator LCB Senior Living.

We bought one asset together and transitioned two former Brookdale properties to LCB. We have strong growth plans for this relationship. As such, we have negotiated - fully negotiated a RIDEA 3.0 management contract and aligned development contract with LCB. This is our fifth new RIDEA relationship this year and we are very excited to welcome Mike Stoller and his team to Welltower family.

In this quarter, we expanded our relationship with SRG by adding one asset in the San Francisco Bay Area for a pro rata investment of $35 million at a valuation of $360,000 per unit, which is a significant discount to the replacement cost in that market. While we have seen this kind of far unit pricing in Florida and Texas, recently by other market participants, we're excited to achieve such remarkable pricing in the San Francisco Bay area.

We are also delighted to inform you that we continue to grow with our existing operating partners such as Frontier and Oakmont. Subsequent to the quarter end, we have closed on two additional SHOP assets with Frontier for $39 million or $197,000 per unit which is also a significant discount to replacement cost.

As a result of overbuilding in last few years we are starting to see more capital deployment opportunities in the Memory Care segment. We are also incredibly excited to grow with Oakmont in California. We signed a definitive agreement to buy six newly built Class A properties with approximately $297 million. The initial cap rate is in the low 5% range on the current NOI, as one of these assets, just opened in the third quarter of this year.

We expect the yield will grow into the high 5% range as this assets stabilized over next 18 months. Oakmont will take 10% of the proceeds in OP units or Welltower stock at approximately $91 per share. We will continue to grow with Oakmont in California markets.

Turning to our post-acute business, we significantly de-risked our enterprise this quarter by divesting a majority of our LTAC exposure. As part of this process, we sold our Vibra portfolio for $265 million. We're delighted to inform you that we have effectively manage through the Life Care reorg process and re-tenanted the building with two operators.

We have lost approximately $2 million of annual rent as a part of the restructuring process, but we have improved coverage and credit that back these assets. Though income loss and high cap rate sale are dilutive in near-term, we have strengthened the quality of overall portfolio by minimizing the exposure to this property type.

These experiences - this experience highlights the detailed discussion we provided on triple-net leases a few quarters ago. The key to value preservation is to have the right basis or price per unit, credit support, and alternative set of operators, while keeping the overall exposure to a manageable level.

Both times we have given rent concession in case of Genesis previously and last year and now we did not have many or all of these boxes checked. However, we believe that today we're in a different position in both Senior Housing Triple-net and skilled nursing space after the many restructurings that we have done in time through last three years that Tom mentioned.

We now have manageable exposure, low basis and our credit and the ability to turn to our operating platform to protect our shareholders. This point cannot be over-emphasized. Turning to our health systems business, we're pleased with the investment we made last year with our partner ProMedica Health.

Since that time, the regulatory environment has turned more favorable and asset pricing has soared. We believe the outlook for total return or forward IRR has materially improved in the last 18 months since we announced the transaction.

We have received multiple unsolicited offers for many assets in the last six months in that portfolio. Though we have no current desire to sell these assets in size, we are considering two specific deals. One, with one transaction for handful of assets, in which the buyer has gone hard on the deposit. These offers present evaluation in excess of $150,000 per bed versus our combined basis of roughly $57,000 per bed.

The sheer magnitude of this price increase hopefully gives you a sense of what we think the total return looks like today versus when we made that investment. We own real estate at a very low basis with cash flow that has great support and term.

Speaking of cash flow, when we set the range for this portfolio at $143 million versus pre-org rent of $474 million we did this precisely because we did not want to guess when the cash flow will turnaround. Though I will refrain from commenting on other people's opinion on our partners credit, I want to put things in perspective. ProMedica has a net debt of approximately $800 million with a revenue of $6.8 billion with billions of dollars of unencumbered assets on their balance sheet.

One might argue that systems 20% ownership in our JV along with a reasonable market multiple to the home health and hospice business, the system would be able to pay off all of their outstanding debt. In the past, we have talked about $75 million or so of synergies when the transaction was announced.

We believe roughly $46 million will be achieved this year. We are pleased with how the integration has gone so far and continue to anticipate the system will achieve significant synergies of above our target. We continue to believe this rental stream, which is roughly two times covered at HCR level will improve, as we look forward in the near to medium term. We also remind you that we have significant structural protection beyond HCR level coverage.

However, instead of rehashing what we have said before, I'm delighted to inform you that our collective business case has only gotten better. HCR ManorCare leadership is engaged with several not-for-profit health systems to partner with to solve the need in this critical, but not easy to execute part of the healthcare continuum. We look forward to discussing many of this with you next year.

For our outpatient medical business, same-store NOI growth of 1.4% was ahead of our budget, though in-quarter growth remains muted for reasons we described previously the leasing velocity has been brisk. Based on this leasing velocity, we believe this segment is prime for growth in 2020.

We remain very active in the capital deployment side in this segment. In this quarter we closed 9 Class-A assets for $193 million and expanded our relationship with Novant, Summit Medical Group, Baylor Scott & White, and TriHealth. Summit and Novant are two prime examples of how we have replicated our relationship business model into medical office sector.

Post quarter end, we have signed a definitive agreement to acquire 18 outpatient assets for $258 million, which will expand our relationship with several systems such a CommonSpirit, University of Texas Health, Henry Ford, and UPMC.

This portfolio is approximately 98% leased, has remaining weighted average lease term of 8 years. The portfolio is owned by a private owner, which has directly negotiated the transaction with us instead of going to the market due to our reputation and certainty of close. This once again shows the power of our platform and how we can create significant value in a competitive industry through executing on completely off market transaction.

We have a handful of other capital deployment opportunities in a similar off market fashion that we have been negotiating over last 9 to 12 months. In Q3, we have funded approximately $141 million of developments and an expected accretive yield of 8.1%, while we are encouraged by a robust cost and access to capital, we remain disciplined and will deploy capital only if we do - and do so on a long-term total return basis.

To illustrate this point year-to-date, we have closed $2.95 billion of acquisitions at a blended 1-year yield of 5.5%. As described in our last earnings call, we expect many of this newly built assets to stabilize in next 12 to 24 months and consequently that 5.5% will grow above 6%. In addition, we announced today an additional $594 million of post quarter acquisition in a similar mid to high 5% cap rate range. And as Tom said, the year is not over yet.

At the same time, we've sold $2.675 billion of assets this year at a cap rate of 6.2%, which includes $558 million of high cap rate post-acute transactions, which implies we have sold $2.1 billion of senior housing assets at a cap rate of 5.35% including benchmark disposition described last call which resulted into a $520 million gain.

The operating environment and the market for all of our assets remain incredibly vibrant and we think thoughtful capital allocation can create significant alpha for our shareholders. We are focused on building new relationships with the best in class senior housing operators and health systems while realizing growth opportunities with these partners one asset at a time.

With that, back to you, Tom.

Thomas DeRosa

Thanks Shankh.

Before we open up the line for questions, I wanted to say that when I stepped into this role in 2014, the company was known as the seniors housing relationship REIT. Admittedly, it took me a bit of time to realize that many of those relationships we're very one-sided, based on paying the most for an operator's real estate with few rights and they were clearly not in favor of Welltower and its shareholders.

That is not who we are today. Welltower's platform people, real estate and healthcare knowledge, great operating partners, data and technology, access to capital and other capabilities provide us with a competitive advantage to drive growth from our current asset base as well as create new investment opportunities. We are optimistic about our future.

Now Shelby, please open up the line for questions.

Question-and-Answer Session

Operator

[Operator Instructions] Your first question comes from Vikram Malhotra of Morgan Stanley.

Vikram Malhotra

Just first question around ProMedica, you mentioned the coverage of 2.15 is not necessarily comparable with the 1.8 that you originally outlined in the transaction. Assuming you can't give the comparable number, could you at least - could you give us a sense of what the original cash flow that you were underwritten or the decline in cash flow, which I think was about 10%. How is that cash flow trending today?

Thomas DeRosa

Vikram, thank you for your question. As we said that our desire we want to respect our partner's desire to keep one metric that is consistent across both platforms. I'm happy to give you the cash flow that we have underwritten, we usually don't talk about our underwriting models on the call, but for once, I will give you that and hopefully this will stop this constant conversation on ProMedica, which hopefully you guys understand. We believe that a significant assets more than its liabilities is debt and how we think about the credit.

But anyway, going back to your specific question. In 2018, if you look at the normalized EBITDAR from the continued operation, which is effectively is what we bought and what we own. The total EBITDAR was $316.156 million, I'm giving the numbers up to 3 decimal point, $316.156 million.

So far this year, ProMedica has achieved $230.1 million of EBITDAR and we believe, we expect they will achieve at least $300 million of EBITDAR. You can calculate the difference, you can calculate the decline and come to your own conclusion, but that's how much I'm going to say about our underwriting model. Hopefully, that answers your question.

Vikram Malhotra

And just then as a follow-up, not necessarily related, but on senior housing, pretty strong results in the U.S. again for the second quarter and you outlined the pricing power. Just to give us a sense of kind of how widespread the performance was and you have a lot of different operating partners, what was the range of your RevPOR growth across your operators and if you can even give us a sense of the range of NOI growth that will just be helpful to get a broader industry trend?

Thomas DeRosa

Yes. So Vikram, it's - I'm not going to get into too much details on operator-by-operator, it's not a quarter-to-quarter 90-day business, but if you look at the pricing range, majority of the operators, we had couple of operators in the 1% range, but majority of the operators are between 2.5% and 4.5% range with couple of large operators have clocked 5.5% rate growth in U.S., which is remarkable.

Operator

Your next question comes from Steve Sakwa of Evercore.

Steve Sakwa

Tim, I was just wondering if you could provide a little bit more detail on the 75 assets that are in transition within Senior Housing. I know in the Investor Day, you sort of outlined a $29 million kind of maybe upside from the assets and transition, but I think that pool has changed since December. So can you just help us frame out sort of the size of that drag this year and just maybe how we can think about that improving moving forward.

Tim McHugh

Yes. Thanks, Steve, so you're correct at the Investor Day, we outlined the transition bucket mainly that point just being Brookdale. So in addition to that, we transitioned a number of assets from Silverado to Frontier in the second quarter of this year. That number from $29 million has incrementally grown and with that, we will update that year-end as we give 2020 guidance.

I'm looking across the portfolio. But it's fair to say that year-to-date, they've had a negative impact on our FFO. But as I said in my comments prior to the beginning of the call, we remain very confident particularly with some of the early results from Frontier that these assets will be very accretive to our 2020 cash flow and beyond.

Steve Sakwa

And as a I guess a follow-up maybe Shankh or Tom, can you maybe just talk about sort of the information flow that you get from your operators on a kind of daily, weekly, monthly basis and maybe how that's changed over time.

Shankh Mitra

So Steve, as you know that we have a significant focused on data and data flow and then analytics on top of the data flow that's sort of what the core of this organization is along with our focus on healthcare knowledge and how that sort of impacts the physical real estate in the setting around it.

So we have a tremendous obviously focus, we have real-time information on how things are flowing. I mean on so if it - when I say real time, I mean we have weekly view of occupancy, NOI, expenses how sort of that's flowing and we're in a constant dialogue with our operators and how we act on it with our asset managers with our investment people with the dynamics people, it is a very collaborative process between us and our operators and we continue to refine and improve on the process every day.

Tim McHugh

Steve, the thing I would add to that is really fundamental to the way we run this business is to have boots on the ground in the significant market. So we have a very strong team based on the West Coast. We have a strong team in New York, we have a strong team in Toledo, we have a strong team in Toronto, we have a strong team in London. By having boots on the ground, we not only just looking at spreadsheets, but we are in the buildings, we are at the operators offices.

We are all over this portfolio because we are trying to as much as we can anticipate opportunities or anticipate problems and try and work with the operator to mitigate those issues or expand upon the opportunities and that's just a unique aspect of how we run this business.

I don't think you can sit in an office on one side of the country and have any idea about what's going on in a portfolio that's in the West Coast and it's the same thing with our medical office business. Keith, we have 14 offices - 14 offices around the U.S. and we lever those offices. I think you're going to start to see even more leverage between the folks that are located in those 14 offices even interacting with our folks who are on the senior housing side.

So again, I can't stress enough that if you're going to be in a business like this and take the risk to get the opportunities that are there in the senior housing space, you have to have boots on the ground, you have to have a physical presence.

Operator

Your next question comes from Jonathan Hughes of Raymond James.

Jonathan Hughes

First off, congrats Tim on the new role and John on his other opportunity. Just going to SHOP. When do you expect the negative supply impact in Quebec to bottom and stop weighing on occupancy?

Thomas DeRosa

Well, Jonathan, I'm not going to get into this call and be specific about what's happening in Quebec and what that's going to sort of will be behind us. As I said that we're cautiously optimistic that our Canadian portfolio will return to growth next year, but we'll see how that plays out. There is a lot of new competition, a lot of new buildings in Quebec.

Some of our buildings that have performed for 15 years had consistently and through that whole time had and looks great have great product to sell, but has been impacted. It's just - the market needs to get absorbed and when it does like any other market, a great market over a period of time, it will come back, but overall as a portfolio which we manage and we have a fantastic team in Canada, and with a remarkably strong leadership there, we think that we will expect the portfolio will return to growth hopefully next year.

Jonathan Hughes

And then just one more for me and a bit higher level. How discussions with perspective SHOP operators gone since roll out of RIDEA 3.0. I know you signed up five new operators this year, but have some perspective operators that they don't want to be subject to potentially losing their properties like one of your West Coast operators this past summer, just any color you can share there would be great.

Thomas DeRosa

So, Jonathan if you think about it. As you can see that we have plenty of strong operating partners to do business with and many of them or probably all of them attracted to our platform, because of our strong capabilities, both on our data side as well as on a health care capabilities.

And if you look at who these people are, and you will see the list of capital partners that have worked with. They have absolutely no issues with getting money into their building, that's not the issue. They have come to us for the specific capabilities that we have that you will not find in any other place.

Having said that, if an operator doesn't want to take the bet on themselves about and doesn't have the confidence to do so from an operating capability perspective, then I guess that's a very good tool to figure out, and the very front-end who you should not do business with. We have plenty of people to do business and at the end of the day that tool will help us and is helping us from an adverse selection perspective, if you will.

Tim McHugh

The next generation of senior housing operators. Those who see the model changing in the future want to be with Welltower. That is who we see are requesting meetings. I think that if you're just interested in monetizing your real estate, you're not - we don't want you and you don't want to us, because we're going to be all over year, we're going to make your life miserable.

So, but those who see that there is another iteration in this business that the senior housing business of the past and in some cases the current is not the senior housing business of the future. The people that are aligned with us about where we're headed, where the future is going to be for this asset class want to work with Welltower.

Operator

Your next question comes from Nick Yulico, Scotiabank.

Nick Yulico

First question on senior housing operating segment. I realize it's not the same pool this year as it was a year ago for the total portfolio. But you had occupancy down 90 basis points in the total portfolio same-store was better, down 40 basis points. Can you just explain what is driving some of that difference?

Shankh Mitra

What you are seeing on total portfolio is the transition assets Nick and that sort of time Tim talked about, how we think those transition assets will play out and they are going through that particular phase. So there is not much to add other than the fact that when you change an operator, as you know and I know and everybody in this business knows that you have a significant disruption at the building level we only change, we only keep assets out of the pool when there is a change of operator not when there's a change of structure such as triple-net assets become RIDEA. So that's what you are seeing.

Thomas DeRosa

Nick, I would just add that the benchmark portfolio that we sold during the quarters in all prior quarters and that was a above 90% occupied portfolios that brought up prior quarters occupancy relative to current.

Shankh Mitra

And obviously as you know, that is a very significant portfolio. So that will drag your overall occupancy to up significantly.

Nick Yulico

And then, you talked - Shankh, you talked about the $150,000 per bed offer for some of the ProMedica assets was that for the assisted living assets.

Shankh Mitra

No. That was for skilled nursing assets.

Nick Yulico

And then just one last question, you do have from master lease, you have this investment grade covenant annual lease with ProMedica, essentially it's that ProMedica cannot be rated less than investment grade by 2 ratings agencies, you now have one that has gotten closer to non-investment grade, not yet there. I guess I'm just wondering, you just remind us why you have that provision in the lease and if there is a scenario, where you got those downgrades over the next year or so, how would that work in enforcing the provisions of the lease?

Thomas DeRosa

So, Nick. Let me answer that. First of all, we really cannot comment about the opinion of the rating agencies, but credit rating agencies are there to assess credit risk. So with respect to our joint venture, the first point is we own real estate at a low basis with good lease coverage and you've heard us say that throughout the call this morning. The JV provides us with right that enhance our credit risk and you've heard us talk about that.

And behind that stands a large non-profit health system that has $6.8 billion in revenue who is the leading health system in Northwest Ohio. They have $800 million in net debt and they've got $1.5 billion in cash on the balance sheet. So we feel good about the position that we're in and I think we've given a lot of metrics that support why we feel good about this investment.

Shankh Mitra

And I'll just add, Nick, if you think about it, that's our option, that's not an automatic trigger and also our partner has cure rights. Right. So this is not - I don't want you to think this is like an algorithmic trade that they get to a level for whatever reason, and then it's an automatic sort of action on our side. So that's not how the real world works. So it's an option that we kept to protect our shareholders. However, as we - as we told you that we think we know how the asset create risk and we feel comfortable that where our assets are.

And as I said, I cannot overemphasize we feel the total return or IRR of that investment as it stands today is significantly higher than when we underwrite that. So hopefully that sort of gives you an answer, but ProMedica does have cure rights.

Thomas DeRosa

But one other thing, I just want to add. Nick, essentially we have the right to bring them to the table. As Shankh said, it's not a gunpoint at their head, this - there is a structure around this investment that brings us to the table to work together to solve whatever bumps in the road may occur over a very long period investment. Historically, REIT set in positions where the operator could you show them the hand and where you have no ability to sit down at a table and work out a rational solution.

I mean, we have no idea what the world is going to look like in 10 years or 15 years or in 20 years, but if you have a construct that aligns both the operator with the capital provider and allows you to sit down and make rational business decisions. I think that puts us in such an advantageous position. So again, we feel very good about this investment.

Operator

Your next question comes from Jordan Sadler of KeyBanc Capital Markets.

Jordan Sadler

So I just wanted to follow up on the overall same-store portfolio guidance and basically just compare where you are year-to-date now, I know you don't give segment level updates, but you are raising the guidance for the full year. And so my question is in the context of that. Your same-store SHOW or show, same-store performance for the year I think you said Shankh was 3% on a year-to-date basis, and I'm looking at your triple-net performance over the course of the year, as Senior Housing Triple-net portfolio 4% in 1Q, 3.7%, 3.4% very good performance but also markedly above 3%, so now we've get 70% of your same-store portfolio coming in at 3% or better year-to-date, how do we get to the 2.5%?

Shankh Mitra

Jordan, we're not going to give you quarter-to-quarter guidance. This is not a 90-day business as we have said several times. All I will tell you, you can come to mathematically any amount of - any number of conclusion you want to but as we said, we feel very good about the year.

We thought we have a pretty good handle on the business, turns out business is better than what we thought, both in our medical office business as well as our senior housing operating business, right. And we think next year is going to be a good year. But it is - I'm just not going to get into right now on this call, what next year looks like if that's what you're trying to…

Jordan Sadler

No. I don't even mean about next year. I'm really just - I guess what I'm commenting on Shankh. I don't want you to miss my point. Tim said that the MOB business is going to accelerate from 3Q to 4Q.

Shankh Mitra

You're talking about fourth quarter.

Jordan Sadler

Yes. I'm just talking about fourth quarter and guidance updated for the year is basically inferring that 4Q same-store is going to be very low.

Shankh Mitra

And as I said, Jordan, you can infer what do you want to infer, we're not going to get into quarter-to-quarter numbers, but we'll tell you, we want you to think about this business beyond 90 days. There is seasonality of revenue and there is seasonality of expenses, right. And those seasonalities don't come together.

So as you think about that, just think about the business and Tim will explain you the numbers, but just think about the business, you will get to the right answer. If you look at any 90 days, good or bad, you're going to get to the wrong conclusion. Tim?

Tim McHugh

Yes. I just wanted to add Jordan that we part of - there will be an addition of our health system bucket to the same-store pool in the fourth quarter as well. If you remember that lease was 1.375% for the first year. So that caused a bit of mixed change in the 4 billion in

4Q.

Jordan Sadler

And then just a follow-up, the strength that you guys saw in the Brandywine portfolio sequentially and year-over-year to your point Shankh, I know this was a portfolio, you called out, I think, a few quarters ago struggling with sort of some occupancy issues post flu and then some operating or personnel issues. Can you maybe just speak to the significant upswing that it saw sequentially and year-over-year, just anecdotally.

Shankh Mitra

So, Jordan if you remember the first part right, which is we talked about the flu in the New York area particularly Long Island and Northern New Jersey, Brandywine has a very stable leadership and it has - we have never mentioned that it's a personal issue, Brandywine had a capital structure sort of reorganization that was needed and we thought the much better aligned relationship with the RIDEA 3.0 management contract with significant skin in the game from Brandywine.

Brandywine is one of the best senior housing operators that's out there. It has beautiful real estate. As we said that it is the best real estate, we have from an NOI per door perspective and Brandywine leadership is really committed to perform and that's what you are seeing in the marketplace today and in our numbers.

So I don't have much to add, I don't want you to think that our numbers were just driven by Brandywine, several of our operators six to be specific, have driven massive outperformance. Brandywine is obviously one of them and we're extremely delighted, how much focus that Brandywine leadership team has put to drive performance and we think there is a significant additional upside to that portfolio, which is one of our best real estate we own with one of our best operator in the business.

Jordan Sadler

Lastly, can you maybe just comment on sort of what the acquisition or investment pipeline looks like for you guys obviously, you've had a pretty busy year so far, but it seems like you've got your sites and some other stuff, just interested in sort of what the flavor, looks like that's coming down the pipe.

Tim McHugh

Jordan, we're seeing real opportunities both in the senior housing space as well as in the medical office space. So I would just say stay tuned.

Operator

Your next question comes from John Kim of BMO Capital Markets.

John Kim

Shankh, you mentioned on the prepared remarks the failure of the Vibra LTAC portfolio. Can you discuss what the cap rate was on the sale and also how much LTAC NOI you have remaining?

Shankh Mitra

So I want you to think about that as a 10% range double-digit cap rate. And Tim, how much is our LTAC remaining?

Tim McHugh

We'll have roughly $18 million of run rate LTAC or some non-SNF post-acute rent going forward.

Shankh Mitra

Which includes LTACs and ARFs, right. Okay. Thank you.

John Kim

Is your intention to sell the remaining soon or…

Shankh Mitra

It's hard to say John, as you know that we are seller of every asset at a price, we feel that now the portfolio operator and the credit has stabilized. We taken pain as I mentioned that we have given, obviously $2 million of rent concession, not technically a rent concession, but lower rent in the new construct versus the old construct, we feel pretty decent about it, but every asset that we own is or sell at a price, so we'll see how that plays out.

John Kim

Similar question on your total SHOP portfolio approximately 78% of your revenue is in the same-store pool and that's due to transitions and assets held for sale, is this figure roughly a good run rate going forward or do you see it potentially riding for the same-store pool and captures more of the total SHOP?

Tim McHugh

Yes. John, it's Tim. I gave some of this color in the call, but we expect the transition portfolio which is 75 assets for virtually all of it to be in the same-store pool about fourth quarter of next year and actually 46 to 75 assets to be in the pool, about the second quarter.

So you should see when we gave - Steve asked question earlier, just around updating our outlook that we gave at our Investor Day last year around the Brookdale transitions and correctly pointed out that that pool has grown from when we gave that initial color and you should expect when we give our guidance next quarter, we'll give color around how those 75 assets will impact the pool if they enter throughout the year, but we expect to be back to where we've been historically, which has kind of 90% plus of our same-store pool captured in that.

Operator

Your next question comes from Nick Joseph of Citi.

Michael Bilerman

It's Michael Bilerman with Nick. Tim, maybe sticking with same-store, I think most people know that you have a different definition in your SEC 10-Q and K's than you do in the supplemental. And I wanted to know whether you are going to give any thought to providing a road map, either in the supplemental or in the 10-Q about the differentials in terms of getting from point A to point B and I recognize that your supplemental is pro rata ownership, constant currency, which reflects more of your economics, but there is a difference between how long the assets are in your pool, longer in the queue and quicker in the south. And so I'm wondering if you're able to provide that reconciliation for investors, so they can understand the impacts of each of the differences between your SEC Q's and K's in your supplemental.

Tim McHugh

Yes. So thank you, Michael. I think the way Nick has been doing great work on this and I've been talking to him quarter-to-quarter, you're correct to point out, given our, both our international ownership and the fact that virtually every one of our senior housing relationships has a joint venture component to it, there is a big difference that we met fully consolidated number in the pro rata number and our intent to the supplement, is to give the absolute best reflection of the economic impact or performance of these assets to Welltower at our share. Two notes just on kind of how that's evolving, one is we are adding the disclosure, you will see in our Q, when we file it of both our year-to-date and five-quarter pool.

So we'll have a pool in the queue that will closely reflect from just - from an asset perspective our supplement pool and that's largely in response to feedback we've gotten from yourself and others just on tying these closer and my comments earlier on the transition that should also help kind of tie these pools together over the next year.

They should come together, but absolutely, we'll continue to work to disclose that information to give that to Nick on a quarterly basis and if need be, we absolutely can kind of walk that from one of the other. Again, we think that gap closes and a lot of it's temporary over the last years, we've been pretty active on the asset management front.

Michael Bilerman

And then Tom, at the beginning of the call, you talked about how you've dramatically changed your senior housing portfolio and gotten a lot out of Genesis and Brookdale and health lease and that cap structures are misguided, operating agreements are misguided, private equity and I think you also mentioned just repaid, where you or at least Health Care REIT had paid too much for real estate. You came into the CEO seat in April or early 2014, you had been on the Board for 10 years prior to that, so I sort of wanted to get inside your head about those 10 years being on the Board, and I guess getting information and approving a lot of those deals as a Board member how much information you were given to then come in and sort of restructure everything after the fact.

Thomas DeRosa

Yes. Good question. A Board - sitting on a Board, you're only as good as the information that is either publicly disclosed or provided to you by the management team and there is the role of Director, Michael, is not to run the company. It is there to protect the shareholder and your principal responsibility is corporate governance and to make sure that the right systems are in place at the company to protect the shareholder. It's very different when you cross the line to be part of management and you see things very differently.

And I don't think you'd get a very different answer from anyone who transitioned from a Board seat to an operating role, and as I said earlier, it took some time to figure that out. And at the same time, I had a different view of what this business this company should be and I did not see us as a asset aggregator.

And that was the strategy beforehand, when I asked the management team, what business are we in, they said we do deals and when you do deals, some of your deals are going to be good and I don't want to say that some of the deals, weren't good, but many of them were not good and again, the information you get as a Director is different than the information you see - sometimes, not in all cases - I'm not saying that about every company, but I will tell you I saw different things once I was inside the company, you have a very different look and a company structured as a Health Care REIT, for example should not be making private equity investments.

That is not our business and when you are paying, when you are seeing yourself as doing deals and your strategy is to show up at auctions and win the deals, you can wind up paying too much and you don't have the opportunity to insert the kind of rights that we know are important to a sustainable business model. So yes, the view from the Boardroom in this case was very different from the view once I was sitting in the seat.

Michael Bilerman

Has that changed with your Board today in terms of the information you're providing them or more so the questions that they're asking of you, because I would assume sitting in the Boardroom for 10 years before you were CEO, you could've questioned all of these things and asked for more information to be able to understand what the company was doing.

Thomas DeRosa

Again, it's always only as good as the information you're provided beyond the publicly available information and does my Board ask difficult questions, do they put high hurdles to achieve, yes, they do because I work at their pleasure, they can hire me, they have the right to hire me and they have the right to fire me. So the Board has turned over quite significantly here.

We have a Board, whose skill sets represent the many verticals that are important from a corporate governance standpoint to sit on the Board of a company like Welltower, so there are people that represent the Health Care industry, there are people that represent the real estate industry, there are people that represent the insurance industry.

These are all verticals that allow them to provide a level of oversight and guidance from a Board table, but they are not here to run the company. Directors do not run the business nor should they.

Operator

Your next question comes from Rich Anderson of SMBC.

Rich Anderson

So, Tom, I appreciate you are not in a position to or have any interest in commenting on other people's opinions, but with regard to the Moody's recent downgrade, the language is quite, let's call it interesting, and I have a comment and my comment is there are some complexities associated with the structure with ProMedica namely the JV and how that's all situated into the economics of the transaction.

Is there an interpretation issue, potentially when you juxtapose Moody's to the other two rating agencies that is impacting this viewpoint or is that something you don't also want to comment on?

Thomas DeRosa

Yes. It's hard for me to comment on that, Rich, but I'd say that we may not agree with interpretations on some of the intricacies of the joint venture structure. So it's - again, it's difficult to be in a position, they also rate our company. So it's difficult to be in - to really start critiquing too much here. I'd prefer not to do that. Shankh, do you want to add anything to that?

Shankh Mitra

I'll just add, you can have different opinions on what things are right and how you calculate them. So I'll give you an example, if I were to calculate cash margin of a place, I would do at a place like ProMedica. This is my opinion, not necessarily that is the right opinion, it's just a different opinion. I would only do 80% of the rent, not 100% of the rent because ProMedica pays only 80% of the rent and for cash margin, I will do cash rent not the GAAP rent, which you know can be significantly different, given the 15-year lease with the 2.75% escalator, right.

So that will be a massive difference of what the cash margin will look like if it just make those two differences, is that a difference of opinion, difference of interpretation, I'll leave that to your opinion. But from our perspective, as we said, we feel very good about the investment, we think that return prospects have gotten better.

The regulatory prospects have gotten better and to put things in perspective, this is an organization, which is an extremely important organization for this part of the country at $6.8 billion of revenue and $800 million of net debt. I hope that put things in perspective.

Rich Anderson

And then second, unrelated follow-up, when you talked about the asset sales that you've done in the past, and I know that you guys are - in meetings that we've had together, aligning yourselves with your operators more, increasingly at the NOI level so that they're also incentivized to control costs. To what degree would you be willing to part ways with real estate that you love? But otherwise, the operator has an unwillingness to kind of go this way and to sort of you have a stake in the game in terms of the cost side of the equation, have you sold assets simply because - not because you're in like the real estate, but because you didn't like the unwillingness of the operator to kind of go your way.

Thomas DeRosa

So let me answer that because we've sold portfolios associated with operator relationships, you should assume there has been real estate inside those portfolios that we would have otherwise loved to hold on to, but that was not an option.

So in those portfolio sales, but I will answer the other question that if we had an operator with real estate that we loved, who was not willing to align with us around a construct that, as we've described, and only saw us as someone who could pay the most for their real estate, it's very likely we would part ways, we would not be - we would not be afraid to part ways because generally in markets around the country there are very attractive markets, we have more than one operator and so people might have thought we were exiting New England, when we exited Benchmark, but actually what we did is we aligned ourselves with a premium operator who is in the right markets in New England and we're hoping that we're going to have to growing business with LCB. We see them as the premium operator in the market and who is also much more Boston.

So that's an example, sometime - we're really, it's not - it's not a black and white decision and sometimes we are giving up good real estate, and we're not afraid to give up good real estate obviously at a price too. If we can sell - there is up hot market for high quality senior housing assets today and if they're not strategic for us, we pretty likely can redeploy that capital with a more strategic operator in a more strategic construct.

Shankh Mitra

I'll just add one thing Rich to a pretty comprehensive answer Tom gave you, I don't want you to think that this is some sort of a - this construct only favorable to Welltower. There is a reason that we say the alignment thousand times, it helps our operators to make significantly more money than they otherwise do from other capital partner.

There is no one in this business at least to my knowledge, who pays more to their operators than Welltower. All we are trying to do is very simply, we rise together, we fall together. Our operators who perform have a significant opportunity to economically gain significantly more than what a standard operating agreement would be and thus that helps them to get better people and that obviously produce better results.

So it's a circular reference, if you will, but it's a virtuous cycle and not everybody will agree to that, but I don't want you to think some sort of this connotation as I hear this question, it feels like we just sort of have something that's only favorable to Welltower shareholders and it's sort of something against our operating partners, that cannot be farther from the truth.

Alignment is not a one-sided relationship, whether that's to the operator or to the capital partners, it is very simply that you rise together and you fall together and many of our operators, who are confident in the ability to run this business over long-term are more than happy to do that and they can get paid significantly more, they are getting paid significantly more and the leadership of this organization are hiring the best people to deploy that capital and attract the best talent into their organization and hopefully, that sort of gives you a sense of how we do it.

We cut it so many ways, we have talked to you, so that this flows through the economy flows to the very bottom of this community, not just the leadership of this operating partners, but also people who are providing the services who our customers are seeing on a daily basis.

Rich Anderson

I wasn't implying that it was a one-way street, but I appreciate the color. Thanks.

Thomas DeRosa

Thanks, Rich.

Operator

Your next question comes from Lukas Hartwich of Green Street Advisors.

Lukas Hartwich

Can you guys provide some specifics about how your SHOP operators are outperforming their competitive sets?

Shankh Mitra

I mean, I'm not sure what exactly that means, you can - you probably have your own view of what the market is doing and whether that's rates are NOI or revenue or and then you compare our results to that, I'm not exactly sure I understand.

Lukas Hartwich

I guess I'm trying to gauge how much is supply, an easier supply comp versus other factors?

Thomas DeRosa

You know, Lukas, one of the things I think we got in front of a while ago was labor cost. This is something we have been talking with our operators about for now years and I often think senior housing results are often too associated with NIC data and the supply issues. I actually think not enough attention is focused on the operating expense side, and I would say it - again, I can't speak to our competitive set, I can speak to our operators.

I think we are on top of operating expenses including labor costs, what's happened senior housing is many operators have taken higher and higher acuity residents, in which they are not really staffed to manage that has led to often shorter length of stays and higher expenses because the operators need to hire more people, sometimes contract labors to manage that senses and that's something we are very on top of. So again, can't speak for folks that are not in the Welltower portfolio, other than the elements that we've spoken to like location and operator quality, I think the expense side is something we've just been focused on a long time and I think that answers some of that.

Tim McHugh

I'll just add Lukas. If you - you have been at our Investor Day and we have shared with you, what's our sense in our data analytics presentation, what's your view of our adjusted competition unit and year-to-open SHOP looks like, which is a cumulative impact of supply over the years.

And obviously, we got less impact this year than last year, but also the results you are seeing is a result of hard work of our operators and our people who are working with the operators, we're partners and the alignment is important because we come together on the table, not as the operator against capital or capital against operator, but just true partner to solve problems.

As Tom alluded to that, when we discussed ProMedica, it's no different in our business in senior housing business, in medical office business and that's why probably you are seeing, but there's just no doubt that we have, we feel like we have the best assets in the best market and the best operating platform that helps you to create more value than some of the individual assets would.

Lukas Hartwich

And I know it's really small, but can you talk about the 4-6 cap rate on the SHOP acquisitions, are those unstabilized or just really high quality, can - any color on that?

Thomas DeRosa

They are unstabilized, both of the senior housing operating assets that we bought particularly talked about whether it's LCB or SRG, they are unstabilized properties in the turnaround situation. So it is - it is very difficult to talk about cap rates when you don't have a lot of cash flow to cap, which is why we specifically talked about and we think it's the best way to look at it for on stabilized properties to look from the perspective of price per unit.

As I said, you can sort of convince yourself what a cap rate is, whether it's stabilized, non-stabilized, future, today, next year, what you can't is price per unit, and that's the way to look at and we believe in all of those cases, we have bought these assets at a significant discount to replacement cost.

Operator

Your next question comes from Michael Carroll of RBC Capital.

Michael Carroll

Shankh, thanks for your comments earlier about the senior housing operating environment. Can you probably add some color on what's the overall competitive set, are operators being more competitive on price in some of your markets in an effort to gain share or is that something that you're not seeing within your portfolio?

Shankh Mitra

Of course, Michael, thank you for your question. If we were to see that Mike, then we would not be talking about close to 3.5% pricing increase, right. So we are not seeing that, is there a difference in different markets, yes.

We've talked about how our U.S. major markets has a remarkably strong quarter, that would translate obviously some of the smaller market hasn't done so well and that's what you want to portfolio for, you can go back and look at four quarters or five quarters ago, I talked about the difference between the large markets and the small markets were surprisingly not wide enough.

Different times, different portfolio, different parts of the portfolio work, but as you know our portfolio is very much weighted towards this large high, very high barriers to entry market and they're performing very well. We have strong pricing power. I don't want you to think that we are here, we have a favorite sort of a statistic in a week and today that's pricing, tomorrow that's occupancy, the day after that it's labor cost. We're trying to optimize all those three variables pricing, occupancy, and labor cost.

And as Tom alluded to, sometimes it's easy to understand the dynamic between pricing and occupancy, but not so much between those two versus the labor cost and we're trying to optimize the three and hopefully you agree that so far we have been successful.

Michael Carroll

Yes. And then, I think you made in your prepared remark comments that you had really strong growth in what DC, Seattle, Chicago, San Diego, due to strong pricing power. Can you talk a little bit or add some color on that, where does that pricing power come from, is that on your ability to push rate on your existing residents, is it pushing, gaining better spreads on new residents, where is the pricing power coming from?

Shankh Mitra

In those specific markets, I specifically talked about, close to a double-digit growth that comes from existing residents, new resident, and obviously controlling expenses as far as you can. So in specifically those markets, you had all the levers playing out.

But generally speaking, to get to an average close to a 3.5% pricing, you got to do both. You got to put street pricing as well as existing residents as well. And just to remind you Michael, the reason you don't see almost just thumb rule half of our portfolio is in January 1st and half of our portfolio is in sort of when you have the, sort of the anniversary, that's when we sent pricing and this is a constant conversation, our operators are very focused on it and they're getting results.

Operator

Your next question comes from Chad Vanacore of Stifel.

Unidentified Analyst

This is Tom for Chad. So my first question is a follow-up on senior - senior housing. So Shankh, you mentioned that SHOP occupancy actually expanded intra-quarter, what is the magnitude of the pick-up you see at the quarter end and also, this quarter you broke three-quarter streak on year-on-year occupancy gains, so understanding one data point is not a trend, do you see a return to year-on-year growth for the same-store pool in 4Q.

Shankh Mitra

[Technical Difficulty] because it's a really good number to talk about, but that's sets the precedence. I don't want to talk about monthly performance. It is very difficult for us to even talk about 90-day performance, I think I say that on a - like a broken record, I don't want to start the precedence of talking about the monthly number, but as I can tell you, we have seen the normal seasonality play out and we have build occupancy through the month of September. Having said that, just remember, we're not trying to build occupancy, we're trying to drive bottom line results, which is a function of pricing, occupancy, and labor cost primarily.

Unidentified Analyst

[Technical Difficulty] quarter up by 1.4%. Are there any seasonal trends that you're seeing with the increase in expenses this quarter?

Shankh Mitra

Can you hear us?

Unidentified Analyst

Yes, we can.

Shankh Mitra

Can you repeat the question again. I think there's something happened to the phone system. Can you repeat the question again.

Unidentified Analyst

Sure. Your MOB same-store NOI grew 1.4% this quarter, that kind of accelerating from the prior quarters, are there anything seasonal, which maybe sequential changed any expenses?

Shankh Mitra

What happened is if - you have to look at the occupancy to get the answers. We had a lot of leasing and what happened is you are in free rent burn off situations period and as Tim mentioned, specifically, if you go back to his part of the script, you will see that we expect as the cash rent starts coming in - we'll return to the normalized growth in this business.

So there is nothing specific other than, obviously you have the, when you have a lot of leasing and you have - you have to give the time to the tenants to build out the space that sort of flowing through the numbers, but not the cash front. So that's sort of what you're seeing and you can see that in the sequential occupancy growth.

Unidentified Analyst

Just lastly, quickly, could you remind us again the size and timing of the two potential ProMedica deals you just talked about?

Shankh Mitra

No, I wouldn't. As we said, real estate transactions take a long time, right. I sort of indicated to you where we are and as things play out. Well, obviously, I said that one of those transactions, the deposits are hard at this point. They will play out.

Unfortunately, real estate transaction is painfully slow because it takes a lot to do it. We have a lot of extraordinary professionals who are doing it and we will tell you, we'll give you the update when they close. But we are excited about it. Just know that every asset we have is on sale at a price, and we are interested in that particular price at this specific time.

Operator

Your next question comes from Joshua Dennerlein of Bank of America.

Joshua Dennerlein

Just curious to learn more about your CareMore Health partnerships. How did that come about, what are your goals with partnership and is this something you can expand across your portfolio?

Thomas DeRosa

Good question. It comes back to a view that there is another level of value that can be delivered in the types of settings that are built to manage the needs of frail to demanded seniors. So let's start there.

Me, personally, and other members of the team have spent a lot of time, meeting with players across the healthcare continuum, including payers. So this has been an evolutionary process to work with one particular payer that has a clinical enterprise associated with it, who agreed that our settings could enable them to deliver services to our population that would be mutually beneficial both to Welltower as well as the payer.

So this has been a process. We are already expanding this model across our portfolio. And I'll ask Mark Shaver, who joined us now, almost two years ago from Johns Hopkins, who's - he and his team have been on the ground working not only with CareMore but also with our senior housing operators here. Mark.

Mark Shaver

So as we announced publicly about two months ago, we integrated CareMore and Anthem's I-SNP net plan into our L.A. and Orange County seniors housing communities with Belmont village and SRG. And that continues to go well.

And as Tom has mentioned many times, we continue to want to make our sites of care more consequential and linked to care delivery. So that pilots up and running to two months in, a lot of good progress. Starting in 2020, we're expanding to two other major metro markets in the Southwest and adding and growing our operator pool to four in this specific partnership.

This is one of several strategies we have to work with payers and provider sponsored plans, which are the health system enabled health plan. So more to come here, but very good progress early on.

Thomas DeRosa

And at the end of the day, from our perspective, it makes the real estate more valuable.

Operator

Your next question comes from Steven Valiquette of Barclays.

Steven Valiquette

So, I was originally going to ask a high-level question around 2020. But I think based on one of Shankh's answers earlier, I'm going to go hold off on that. And maybe just to shift gears here a little bit, I don't think anybody touched on this really in detail yet, but – and one of your major peers last week talked about some major differences and performance in assisted living versus independent living properties. And the peer last week suggest that they're seeing pressure in AL from new supply. But that their IL portfolio was still doing okay.

Last quarter, you guys mentioned Welltower was experiencing the opposite with significant outperformance in AL versus IL. It's really the question is for us just to confirm that that you guys saw that same trend in 3Q that occurred in 2Q, I'm assuming so. But more importantly, just any additional color you can provide on your better performance in AL versus IL?

Shankh Mitra

We are, I mentioned that in my prepared remarks. We are seeing significant outperformance of AL and memory care segment relative to IL. And that gap has reached a multi-year high this quarter. Again, this is not a quarter-to-quarter business.

I don't want you to take some portion of the statistic from one quarter and think about the others in a different quarter. But that's a consistent trend we have seen. I believe I mentioned that for last four quarters. And we saw that gap continued in favor of our assisted living portfolio.

Operator

Your next question comes from Michael Mueller of JPMorgan.

Michael Mueller

Looks like you have about $600 million of SHOP development underway. Can you talk about what sort of timeframe you underwrite for the properties to stabilize in? And has that changed over the past couple of years?

John Goodey

Mike, it just hasn't changed from an underwriting or from the yield perspective. Timing hasn't changed much. We have a lot of assets in that pool and we believe that you will see majority of them will get delivered between 2020 and 2021. And Tim has walked you through what that cash flow impact is on our Investor Day. So you can look at the slides and look at the impact.

I can tell you that the other aspect of the development platform is about 750,000 square feet medical office. That's eight assets. And all but one will get delivered between now and end of next year. As obviously, all of those assets are leased. So you will get also, from a run rate perspective, second half of 2020 and going into 2021, you will get good growth there as well.

So you will have the deliveries of senior housing assets when they get delivered. Obviously, you are going through the lease up that's dilutive to the nature, just how the business works because of lease up losses. On the other hand, medical office, they're leased and they will get delivered and you can figure out how those interact with each other.

Michael Mueller

And 2020 is obviously a chunk year with about $800 million of deliveries. If we're thinking out over the next three years to five years or so, I mean, what are you thinking about for an a average annual pace of development investment?

Tim McHugh

Michael, we've been averaging kind of $300 million in deliveries over the past four or five years. As the enterprise has grown, we have a little bit more capacity on the balance sheet side to support development as a complement to our normal acquisition activity.

So I think what you're seeing now is that probably move towards more of a $500 million annual delivery pace next year. You're correct to point out, it's a little more front-weighted. But you should expect that to normalize more than $500 million range.

Operator

Your next question comes from Daniel Bernstein of Capital One.

Daniel Bernstein

I know you had a very good performance this quarter in your particular portfolio. But from an industry perspective, want to just think about if you're seeing any additional pressures from rate or occupancy out there? And particular, if you look at the merchant builders, they're two or three years into a lease up there. They're probably not able to refinance throughout the end of that lifeline and the construction loan. Are you seeing any additional industry pressures from those merchant builders and maybe are those the opportunities that you're seeing on the acquisition side as well?

Shankh Mitra

We can only speak for our portfolio. It's hard to speak about the industry in general. We are always extremely focused on our portfolio. And, kind of, that's the answer you would expect from us, given how far our knowledge sort of goes. And we are not seeing significant pressure from any one of these industry participants that you mentioned.

In general, I would say that some of the earlier over development that we have seen, I mentioned couple of quarters ago that we're seeing emergence of opportunities in Texas that sort of one of the first place that had the over building. I mentioned this quarter you are starting to see that in the memory care segment. So obviously you are picking up that point.

But remember, we are very focused on something very simple: Is this an asset that is well built, has great bonds? Can we get a great operator to run it, to create long-term future value? And is that at the right basis, right? We're not focused on what the initial cap rate looks like. We're focused on what the right basis and long-term returns looks like.

We're starting to see opportunities, but it's too early to talk about how big, when that can transpire? So stay tuned.

Operator

Your next question comes from Tayo Okusanya of Mizuho.

Tayo Okusanya

It's good to be back. Tim, congratulations on the new role, very well-earned. Just a couple of questions from me. I wanted to go back to ProMedica for a quick second. We're now just maybe four weeks post implementation of PDPM. I'm just wondering if they are giving you guys any feedback around how that's going? And for the, again, some longer-term thoughts around PDPM, Shankh, given your comments that you guys are definitely feeling better about your investment case, partly due to some of the regulatory changes.

Shankh Mitra

I'll tell you, first is, we're feeling better about investment case because the terminal value of what we thought the investment would support purely from a price per bed perspective has gone significantly higher. And I talked about the case about valuation or exit multiple, right?

So if you think about even if everything else is same, I gave detailed view on what the cash flow might or might not look like relative to underwriting to Vikram. But just if you think about the sheer magnitude of change on valuation will change massive increase in IRR.

Having said that on PDPM, you are correct, that we are obviously very close with our partners. We talk in a very regular basis. So I do have a view on how the team thinking about it. But it's too early to comment. Let's just say that they feel pretty optimistic that it will add to the cash flow as we move forward.

Just, overall, just remember what I said, that we had $316.156 million EBITDA for 2018. So far we have achieved $230.1 million. In skilled nursing business, seasonally, fourth quarter is a strong quarter. On top of that, you have the rate increase this year and you have PDPM, which is obviously sort of a variable. We think that will land on the positive side, but we'll talk about that more, next quarter's call. Hopefully, that was helpful.

Tayo Okusanya

And then on the SHOP side, I think you gave very good commentary around Canada. I'm just trying to understand, the U.K. in particular, the big change in the SHOP same-store NOI between 2Q and 3Q. Specifically what was going on there, whether it's just a very tough comp versus 3Q 2018?

Shankh Mitra

So, Tayo, if you look back last couple of quarters earnings call, I have talked about that in detail. So I don't want to repeat that. But I do think that our U.K. portfolio is doing well. So it is obviously same story is what same store is, we can't change what the definition is. And just because the rest of the - out of same-store portfolio is doing better, we can't put it in same-store, right? But if you look at the overall U.K. SHOP portfolio, it's actually up close to double-digit.

But the pool that we have is up 1.8% or so that we reported. I mean, it is what it is. It's just a number if you get to take the good and the bad. But we feel optimistic about the business.

Tayo Okusanya

One more if you'll indulge me. Just taking a look at your triple net portfolio, you gave a nice stratification of all the rent coverage. And I'm just looking across all the names where you have less than 1x coverage. And I think in 1Q that total sum was about 4.7% according to the sub. And as of 3Q, that number is 6.1%.

Just curious if that's just one or two tenants that are doing incrementally worse on the triple net side or what's kind of driven that increase and how do we kind of think about that just with regards to managing those leases?

Shankh Mitra

Yes, very good question: How you think about managing the leases? If you go back four quarters ago, I had a long conversation on this earnings call about how we think about that. I added significantly more color commentary this quarter on my prepared remarks, that you need to have the right basis, right structure; more importantly, the right follow on operators.

We feel a lot of these assets have significant opportunity of cash flow upside with the existing operator or with a different operator. We do not anticipate any significant changes as we sit right here. But if there is an opportunity to maximize asset values and cash flow, we will do that. You have seen us doing that in last three years. We'll not go back from there.

However, as we sit right today, right here, we do not see a significant change. We'll see how things change. Just so you know, we have a very large group of professionals who do this day in and day out. And every one of our assets has an alternative operator and an alternative to an alternative operator, right?

We, and that's how we set it up. We're not waiting for someday we'll get some call and then we'll act to it. The game plan, the business plan is built around all of our assets including the assets you mentioned. And if there is, needs to be, we'll execute. And hopefully that you believe that we have executed so far well.

Operator

Your next question comes from Jordan Sadler of KeyBanc Capital Markets.

Jordan Sadler

I just had a follow-up, I think you guys talked about last quarter, the 3 million square feet of MOBs under negotiation. It looks like you closed some. Is there - can you sort of speak to that?

Shankh Mitra

Jordan, we closed or we announced post quarter activity of just exactly a million square feet, so far, of the three. And as Tom said, the year is not over yet, so stay tuned.

Jordan Sadler

So that's still under negotiation essentially, mostly?

Shankh Mitra

Yes, they are. And that pipeline has expanded. We have a lot to talk about that in next few months.

Jordan Sadler

Okay, more MOB. And then another question…

Shankh Mitra

Not necessarily. This is just - your question was MOB, so we talked about MOBs. We're not, as Tom said in answer to a question, we feel great about both our senior housing business as well as our medical office business, and there are opportunities to grow with our existing relationship, whether that's on the MOB side or with our senior housing side. We're optimistic on both of our businesses, not necessarily just have more MOBs.

Jordan Sadler

No, and I'm not trying to pin you down. It just sound like you said you closed on 1 million of the 3 million. It sounds like you still have a couple of million left in the pipeline or more. And then on ProMedica, is there something helpful on a property level metric basis that you can offer up to us that sort of - give us a little bit of a better indication on the four wall

EBITDAR coverage, or just property operating level metrics? I mean, you're now giving occupancy, but we really, I think we only have a few quarters of it from you. But is there anything else you can offer up?

Shankh Mitra

We will only offer you what our partner is willing to offer to the marketplace. Needless to say that I understand your questions because majority of the investments that you have seen in the triple net side with operators that have no credit; or have seen significantly, was credit. As I pointed out that our view that our partner has significant credit, and I hope you understand that the lease sits at the top of the capital structure and not on a sort of SPE vehicle.

So, I do understand the question, but we want to be respectful to our operating partner and their desire to obviously have consistent numbers and message is out there. However, we give you enough, hopefully, on the cash flow side which tells how it's sort of - how things are going relative to what we talked.

Jordan Sadler

What's the denominator in the 2.15, is it your 144 of rent or is it the 100%?

John Goodey

It's all rent. It's the senior obligation in the [indiscernible].

Jordan Sadler

The 144?

John Goodey

Yes.

Operator

Your final question comes from Nick Joseph from Citi.

Nick Joseph

Just for the ProMedica asset sales that have gone hard, how many beds are in that portfolio?

Thomas DeRosa

I'm not going to get into that, Nick. Investors and analysts are not the only people who listen to these calls. I only want to talk about transaction when they're ready to talk about. Given all the noise around ProMedica, I wanted to mention this to give you a sense of how we are thinking about the total return of the portfolio is. But we're not going to talk about transaction between two parties was supposed to be at this stage in the conversation is supposed to be private. So I only disclose how much I was allowed to disclose by my partner.

Nick Joseph

And that was added to 150 a bed?

Thomas DeRosa

That's what the market is today. If you look at what we have sold, our Genesis assets are about significantly higher than what we bought our ManorCare assets. If you look at where markets are trading overall, we are seeing somewhere between 120 and 180 per bed, it's what we are seeing the marketplace. We'll look at - not just these assets, but that's what these - we're seeing overall. That's where the business has gone.

Operator

There are no other questions in queue. Thank you for dialing into the Welltower earnings conference call. We appreciate your participation and ask that you disconnect.