FINAL TRANSCRIPT

Invesque Inc.

Third Quarter 2018 Earnings Conference Call

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PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to Invesque Inc.'s Third Quarter 2018 Earnings Conference Call.

I would now like to turn the call over to Scott Higgs, Chief Financial Officer. Please go ahead, Mr. Higgs.

Scott Higgs — Chief Financial Officer, Invesque Inc.

Thank you, Denise. Good morning, everyone, and thanks for joining the call. With me today are Scott White, our CEO, and Adlai Chester, our CIO. Scott will kick things off discussing our activity for the quarter, colour around our portfolio, and some overall industry news and trends. I will cover the financial results from the third quarter, and Adlai will recap our recent investments and strategic efforts before starting the Q&A portion of the call.

The third quarter earnings release, financial statements, and MD&A are available on our website, and a replay of this call will be available until midnight on November 22nd.

Before we get started, please be reminded that today's call may include forward-looking statements regarding our future operations. Such statements involve known and unknown risks and uncertainties that may cause actual results to differ materially from those expressed or implied today. We have identified such factors in our news release and other public filings.

As we discuss our performance, please bear in mind that all amounts are in US dollars.

With that, I'll hand it over to Scott.

Scott White — Chief Executive Officer, Invesque Inc.

Good morning, everybody. Thank you all for joining our third quarter earnings call. On the last call, we referenced the incredible amount of growth we have experienced over the past two years, both in terms of our portfolio and our team. We continue to view ours as a growth story, evidenced by the fact that on a year-to-date basis, we have significantly outpaced the growth of both US and Canadian real estate companies.

In 2018, we believe we're actually the fastest growing publicly traded real estate company in Canada. Furthermore, this year, we have grown our portfolio on a relative basis by more than any US REIT in any asset class. I'm very proud of this distinction, and rest assured it is our expectation that we will continue to grow by finding good, accretive investment opportunities with a specific focus on helping our key operating partners and diversifying our portfolio.

Our recent activity is a great example of this theme. In July, we added another medical office building to the portfolio in partnership with Mohawk, bringing our medical office portfolio to 15 assets. We acquired the property for $7.7 million. It is located in upstate New York and is 93 percent occupied. Adding an asset like this into the portfolio, so shortly after the acquisition of Mohawk, demonstrates the depth of the pipeline and the potential for our partnership.

Following the end of the quarter, we also expanded our partnership with Hearth Senior Living, as we closed on an $11 million acquisition of a 100 percent occupied, 48-unit memory care facility, also located in upstate New York. In addition, we put under contract another senior housing asset with an existing partner, that we expect to close in the next 60 days.

Our operators are critical to our success and growth. While we continue to source opportunities with new operators and partners outside of the portfolio, our existing partners will most certainly provide a meaningful portion of our future growth. This is an important point you've heard me mention many times in the past. While we work with our partners toward mutual growth, we also work with them in many cases to actively manage our portfolio.

A good example of this occurred when we entered into a definitive agreement to sell a portfolio of seven skilled nursing facilities in Georgia for $70 million. This portfolio is currently operated by Traditions Senior Management and was originally purchased as an opportunistic off-market investment. Traditions saw upside and projected a meaningful improvement in the operations of the underlying facilities. Traditions executed on this turnaround plan, creating considerable value.

We have collaboratively made the decision to strategically divest these assets, which we expect to close in the fourth quarter. This was a great example of identifying an opportunity with one of our operating partners and taking advantage of their ability to execute and improve operations.

At this point, I'd like to make it absolutely clear that we remain net buyers in this market. This was a somewhat unique situation where we're taking advantage of market dynamics, which allows us to get an attractive price for this portfolio. We'll look to recycle the proceeds from this transaction into assets that we believe are better suited as long-term investments in our portfolio.

In addition to our many growth opportunities, I'm also very proud of the platform we've established. Our size and scale have now opened the doors for us in several key areas. We successfully launched a $50 million convertible debenture offering in August, then just last week we announced a share buyback program through a normal course issuer bid. We're also very excited to announce that we're in the midst of a recast of our existing credit facility. Scott Higgs will provide more details on this shortly.

We've accomplished a lot this quarter, but there's no time to rest. We have a lot more to get done. I'm excited about our team and the path we continue to pave in the industry.

With that, I'll pass it off to Scott Higgs.

Scott Higgs

Thank you, Scott. We had a productive third quarter. For the quarter ending September 30th, FFO was $0.23 per share and AFFO was $0.20 per share. Excluding deal pursuit costs, our FFO was $0.27 per share and AFFO was $0.24 per share.

Our payout ratio, excluding deal pursuit costs, remains strong at 76 percent. On a forward run rate, we expect our payout ratio to remain conservative and in the mid-70s.

In the third quarter, we incurred deal pursuit costs of approximately $2 million. These costs were attributed to a large investment opportunity that we ultimately decided was not in the best interests of our shareholders at this time.

On our previous earnings calls, we discussed the scalability of our platform. This remains a constant theme and something in which we take great pride. For the nine months ending September 30th, our G&A as a percentage of total assets was just 70 basis points. In comparison to the same period last year, this is a reduction of 14 basis points or approximately 20 percent.

From a portfolio perspective, the performance in our stabilized triple-net lease portfolio remained consistent with previous quarters. On a trailing 12-month basis, our EBITDAR and EBITDARM coverage ratios were 1.2 and 1.6 times respectively. Our trailing 12-month occupancy remained consistent at 85 percent. On a trailing three-month basis, our EBITDAR and EBITDARM coverage ratios were 1.3 and 1.7 times respectively, and occupancy was 86 percent.

Within our stabilized JV portfolio, which consists of 21 properties, occupancy had a slight uptick to 88 percent. Additionally, this is our first quarter reporting performance of our medical office building portfolio, which had occupancy of 87 percent.

Our operating partners have continued to deliver stable performance as we've scaled our platform. Our attractive debt profile is also an important element in the strong financial health of our company.

I'm very excited to announce that we're recasting our existing credit facility to an unsecured deal. The enhanced facility will provide pricing compression, additional liquidity, and a platform for long-term and—long-term growth and sustainability.

In addition, I anticipate that the recast will include an overall upsizing in the capacity of the facility. This will allow us to gain efficiencies through consolidation of on-balance sheet debt and property-level mortgages with shorter-term maturities. The recasted facility puts us in the top echelon of our peers. This validation by the credit markets in our short tenure as a public company demonstrates our strategic growth, scale, and overall trajectory.

Additionally, as announced last Friday, we've established a share buyback program. At various times, we believe the market price for our shares may not fully reflect the underlying value of our portfolio. We put the program in place so that we have the flexibility to potentially capitalize on the undervaluation by buying back shares at values that will be very accretive to our shareholders.

With that, let me pass it to Adlai to discuss our investment activity.

Adlai Chester — Chief Investment Officer, Invesque Inc.

Thanks, Scott. I'd like to go back to a comment Scott White made at the top of the call. Our team has taken this company to new heights and by some metrics, is the fastest growing company in the real estate sector, both in Canada and the United States. I'm proud to be part of this team, one that continues to drive the execution of our strategy.

One of the fundamentals to our strategy is building the portfolio with the right operating partners. The acquisition of the medical office building with Mohawk, senior living asset with Hearth, and the additional senior living property we recently put under contract are perfect examples of those partnerships and the growth opportunities that follow.

We purchased Keepsake Village at Greenpoint for $11 million. Keepsake is our third facility operated by Hearth, all in upstate New York. All three of these buildings are great assets in a great market. Hearth continues to be a stellar operator of these buildings, with stable occupancy near 100 percent.

We purchased the medical office building outside Buffalo, New York, for $7.7 million, which brings the current total to 15 buildings in our MOB portfolio. Our partnership with Mohawk continues to provide ample paths for growth and expansion. The pipeline for these types of acquisitions, both in the US and Canada, is strong and will continue to generate a robust pipeline of opportunities to fuel our growth.

Speaking of the pipeline. The actionable deal flow we have seen in the last quarter has been the highest yet, at about $1 billion. We went back to quantify what we have reviewed and passed on in the last six months, and we have declined over $3 billion of deals.

Currently, we are focused on the portion of our pipeline with our preferred operating partners, and we expect to continue to prioritize using our capital to help these operators grow. With this core group of partners alone, the amount of potential transaction volume is currently in excess of $300 million. This speaks to our partners' ability to perform and grow in a fairly tough operating environment. Additionally, this is a very strong indicator of their view towards us as a key source of their capital.

On the business development front, back in September, three members of the senior leadership team attended the NIC conference. The NIC conference is the marquee annual conference in the senior housing and care industry. The NIC is attended by over 2,000 leaders from across the industry.

We were happy to be a sponsor of this conference for the first time in our history. Though we have individually attended the NIC for years, this was our first time attending as a group with a unified message. The conference was also the first opportunity to publicly showcase our top-notch team.

During this three-day period, we participated in over 50 meetings. These meetings included our current operating partners and also gave us the opportunity to tell our story to a variety of prospective operating partners, bankers, and other industry leaders. Our unified message was very well received by our existing and prospective partners, and we were very encouraged by the reaction to our relationship-focused, diversified investment strategy.

Our attendance at the NIC conference is one of many angles we're pursuing with respect to business development. These business development efforts are fundamental for building a highly diversified portfolio of income-generating properties across the full spectrum of health care real estate.

I'd like to thank everyone for joining the call, and we'll now open the line for questions.

Q&A

Operator

Ladies and gentlemen, to ask a question, please press *, 1 on your telephone keypad.

Your first question comes from Stephane Boire with Echelon Wealth Partners. Your line is open.

Stephane Boire — Echelon Wealth Partners

Thank you. Good morning. I was wondering if you could give us a little more details regarding the acquisition that didn't go through? And more specifically, the geographic location and the type of asset?

Scott White

Yeah. Good morning, Stephane. So the acquisition that we have some transaction costs associated with is very consistent with the rest of our portfolio. Geographically, in North America, as you would expect, the types of assets that we generally are looking for—as you know, our investment thesis is very broadly defined, and we fundamentally believe that there is a better risk-adjusted return by investing across the full spectrum of health care assets, and this opportunity might have been able to help us grow that.

At the moment, it doesn't make sense for us, and taking a very conservative and appropriate accounting position, we've decided to write off the costs associated with it. But who knows?

Stephane Boire

Okay. Thank you. Regarding the sale of Traditions. What will be the net proceeds from that? And actually, what do you intend to do with the proceeds? Will it be more—focused more toward the buyback? Or debt reduction? Or even more acquisitions?

Scott White

I'm going to let Scott Higgs walk you through the net proceeds on that. With regards to the redeploying the capital, it's all of the above, Stephane. We look at each transaction on a relative and opportunistic basis, what is the highest and best use of our capital. Right now, capital is the thing that we have the least of and value the most, so we're going to use these proceeds across everything you just said. It could be incremental acquisitions, it could be our normal course issuer bid. There are ample opportunities. Have no fear, it will be spent fairly quickly.

Scott, do you want to address the net proceeds?

Scott Higgs

Sure. So I expect net proceeds to be in the 11.5 million to $12.5 million range.

Stephane Boire

Okay. That's good. Thank you. And just finally, can you comment a little on the situation with Symcare at this point? Are you considering divesting part of this portfolio?

Scott White

So with regards to Symcare and Symphony, we look at them like we do all of our other operators on a regular basis. We monitor their performance, we see where they fit into our portfolio.

They've continued to be an exceptional partner of us. I don't—at the moment, we are not anticipating any sale of any of those assets, but we review and evaluate that on a regular basis, and that could change

And the reasons that could change is really how it fits in strategically to our portfolio, and what we're trying to accomplish longer term. As of today and as we're talking on this call, Symphony remains a big part of our story and a big part of our portfolio, and we don't have expectations of selling those assets.

Stephane Boire

Okay. All right. Thank you. That's it for me. I'll turn it back. Thank you.

Scott White

Thanks so much, Stephane.

Operator

Your next question comes from Chris Couprie with CIBC. Your line is open.

Chris Couprie — CIBC

Hi, guys. Just on the—

Scott Higgs

Hey, Chris.

Chris Couprie

—the Traditions disposition. Could you just help us understand the logic as to why this particular portfolio was selected as a candidate? And how does the sale price compare with the—as far as I understand, it was part of the whole Care IT transaction?

Scott White

Yeah. So let me address the sale price, purchase price, first. And it is hard to really assess it directly because we did acquire a portfolio of assets of which there was obviously an allocation to this, but some of that is more accounting than it is anything else. We're very comfortable with the valuation that we got on it, on the sale. And we are or have recorded a gain relative to what we were carrying it.

With regards to the decision strategically to sell this portfolio vis-a-vis others, we've been in massive growth mode for two years now, as I commented in my comments, and I think Adlai reiterated. We actually believe, based on a bunch of metrics, we have grown faster than any other Canadian real estate company or any other US public REIT, of the data we could find. As part of that growth, we acquired a number of portfolios without thinking, initially—at least at the time of—as we're chasing these deals—of ultimately, what we're going to hold onto, longer term.

As we announced in our last call, we've recently augmented our team with a couple of professionals. And some of their responsibility—and that's Bryan Hickman and Adam Zeiger—is to review our existing portfolio relationships and assess, where do we think there's a growth opportunity? As we've mentioned a couple of times, we really want to grow with our existing operators, but not all are growth opportunities for us. So by definition, there are certain ones that we'd rather allocate the capital away from, and this fit into that bucket.

The other thing that's important to understand about this trade in particular was when this was acquired, which was again, before we acquired the Care portfolio, it always was acquired as an off-market, opportunistic turnaround situation with a fairly short investment timeline. Both the original acquisition and the operator or JV partners, the expectation was that we'd fix this great value for our shareholders and sell it. And we've just continued to capitalize on that original investment thesis.

Chris Couprie

Who'll have the Traditions property?

Scott White

We do. We do.

Chris Couprie

And to the fact that you've gotten rid of these other Traditions assets, that it could be a candidate for disposition?

Scott White

It is possible. It is a different property; it wasn't part of these. It wasn't—this was a very finite portfolio. It was acquired together, and the expectation around this one was a short-term sale.

But it's an interesting question. I don't want to specifically comment on which of our properties might or might not be for sale.

But as you've identified, Chris, it doesn't make sense to us to have a bunch of one-offs. So longer term, you'd probably—and I want to be careful because you just don't know—but probably start to call some of the individual assets or small operators, where there isn't necessarily an opportunity for growth. Whether or not that fits this exact circumstance, I think to be determined, and we're going to continue to assess that.

Chris Couprie

I think you said in your opening remarks or assumptions (phon) that there is—outside of the Keepsake, there was another acquisition that is expected to close in the next 60 days. Could you elaborate?

Scott White

Yes. Adlai, do you want to take that one?

Adlai Chester

Yup. Absolutely. So it's with an existing partner, Constant Care, who is a senior housing operator with us. We currently have three buildings. We'll be adding a fourth building. They are performing extremely well, and we're going to continue to look for opportunities to grow with them. It's a senior housing, approximately $8.1 million acquisition.

Chris Couprie

How many units?

Adlai Chester

So it is a 36-bed memory care building.

Chris Couprie

And in terms of the Ellipsis. I believe one or two of the assets, kind of online at this point. Any update there?

Adlai Chester

Yeah. So actually, we just toured our board through the building in Fishers, Indiana. The building's beautiful. They already have eight residents. It's been open for about a month. So it's doing really well. So we're absolutely looking at future opportunities with Ellipsis. And once again, that building is also operated by Constant Care. So we see great opportunities to continue to capitalize on that relationship with Ellipsis.

Chris Couprie

Okay. Great. And then just one last question from me, just on the Symcare. In terms of the mezz loan balance this year, it's kind of been increasing sequentially. Wondering if there's a kind of comfort level you guys have there with respect to (unintelligible) that operation?

Scott White

Yeah. So this gets back to the question, I think Stephane, asked before in terms of Symcare, and are we going to sell any of those assets? We continue to monitor that portfolio and look for ways to partner with them to help them out.

As we've said in prior calls and will clearly reiterate, the skilled nursing sector is facing headwinds in the United States. There's no question about that. It always—it has since we've owned this portfolio, and it continues to face further headwinds. That's part of investing in skilled nursing. And that's part of, and really gets to the core of our investment thesis, in terms of diversification across different types of assets.

Skilled nursing, by definition, tends to be a higher yielding asset, but it also tends to have greater cyclicality. Right now, skilled nursing across the US—and Symcare's not immune from it—is facing headwinds. So we talk with them on a regular basis of how we can be a good partner with them for the long-term viability of the relationship and those buildings.

Symphony and its predecessor entities have been in business for over 40 years, so what they're seeing now isn't necessarily something that they haven't seen in the past. With that said, there are some cash constraints with Symphony, and we've been trying to work with them to help them out. And one of those things we've done is a working capital loan to help them through some short-term cash needs.

Chris Couprie

Just maybe on that point on fundamentals. Yeah. The skilled nursing, definitely been challenged, and the seniors housing also appears to be facing headwinds. The (unintelligible) and you saw FiveStar the other day. Just wondering if you can comment at all on any stress that you're seeing, (unintelligible) housing (unintelligible)? And how it—how it—how that kind of plays into your JV structures?

Scott White

Yeah. No. That's a great question. Look, we're very pleased with the performance this past quarter of all of our JV seniors housing operators. It was a very good quarter for them. And I think the stress on seniors housing is very geographically focused. So there are certain regions where—and it's fairly easy to develop seniors housing. And that's been one of the concerns in the industry, is that so much has come online in a short period of time, that there's an absorption time frame that hasn't quite caught up.

As I continue to remind both out team and the market in that we're investing in real estate. We're investing in a macro demographic, i.e. the aging Baby Boom demographic, that has a long life ahead. So there will be, no question, short-term blips. There'll be oversupply, and then there'll be shortages, so on and so forth. So fundamentally, right now as we stand in November of 2018, there is a concern in a number of pockets and broadly across the industry, quite frankly, about overdevelopment.

With that said, all of our operators are performing, for the most part, as expected. I can't tell you that every single building is meeting every single metric we expect, but we monitor that. We don't have any macro concerns with our seniors housing portfolio. And we continue to stay focused on the fact that there will be, and I think for a long time to come, massive demand and need for these facilities. And so long as we work with the right operators, who know how to be efficient and how to sort of be malleable and evolve as the markets evolve, we'll be fine long term.

Might there be short-term hiccups along the way? Absolutely. That is part of investing in real estate, and that really cuts to why we continue to diversify. As you think back to our portfolio, Chris, historically, a year or so ago, we were 75 percent skilled nursing. Today, we're more evenly balanced between skilled nursing and seniors housing, and then we just added MOB. We believe that continuing to diversify across the different asset classes will reduce some of the impact of cyclicality in any of the individual segments.

Chris Couprie

Do you have an idea—

Scott Higgs

And I would just add, our senior housing JV occupancy actually ticked up this quarter. So we—

Chris Couprie

Right.

Scott Higgs

—once again, very happy with the market and the operators we're with.

Chris Couprie

Could you give us an idea of what your pro form segmented (unintelligible) mix will be after the conditioned sale and the (unintelligible) and Constant Care acquisition?

Scott White

Higgs, do you know that?

Scott Higgs

Yeah. Chris, I can get you the specifics, post call here, to help with your modelling and whatever. But it'll be in that 47, 48 percent, would be scale. The rest would then be seniors housing, private pay.

Chris Couprie

Thanks, guys.

Scott White

Thanks so much. Appreciate it.

Operator

Your next question comes from Mark Rothschild with Canaccord Genuity. Your line is open.

Mark Rothschild — Canaccord Genuity

Thanks. Good morning, guys.

Scott White

Good morning, Mark.

Scott Higgs

Good morning.

Mark Rothschild

So Scott, you started out—you spoke about how you're still in growth mode, and this asset sale is not something that's more indicative of any change in strategy. But you were somewhat creative in a few of the acquisitions over the past year, with issuing shares that had a nice premium to where the market is, around where you believe, or where many believe NAV is. But this has led—this has possibly led to selling, as some of the vendors in some cases, where maybe there are many people who were partners in the assets that have sold shares. And I know that you believe that might be part of the reason, that there was pressure on the share price.

So to what extent is that strategy of issuing shares to vendors, where it could put pressure on the share price, something that you're thinking about differently now? And if you are going to think differently, what are the avenues of raising capital? And where are you, as far as thinking about that? Is doing more converts where the dilution would be at a higher share price, something that you would lean to at this point?

Scott White

Yeah. It's a great question, Mark. As I said before and will continue to reiterate, right now, access to capital is our biggest strategic focus. How do we continue to grow? We had fairly limited access to capital, i.e. the traditional public markets, throughout 2018, yet we still delivered what I believe is the fastest growing real estate company in both Canada and the US.

So as you said, we've been creative and specifically, to address your question, we've used shares as a currency to grow. And what has that impact been on our share price and potential trading in the market? Well, first deal or transaction we did was with Tiptree, and that was the acquisition of Care IT.

And they are not only locked up, but they have a board seat. We talk to them on a regular basis, and it is my belief that—well, first of all, they're not a seller because they're locked up. But it is my belief and expectation that they are long-term holders looking to grow on a similar strategy as we are.

The subsequent larger transaction that we did was with Mohawk. And the principles of Mohawk are locked up, and they're our partners. We talk to them regularly. And when I say regularly, I mean at least weekly. They're big believers in our strategy. Now, they had underlying hundreds of smaller investors that may very well have been selling out over the last few months. I don't know that with certainly, but it is one of our theses around selling, or around the pressure on the stocks.

And now to directly answer the question of, does that mean it's a strategy you won't implement on a go-forward basis? And the answer is no. We absolutely will continue to implement a strategy like this. We believe that we've had a vision, a strategic plan in mind since we set out to build this company. We're well ahead, in terms of quite a few metrics, of where we expected to be just two-and-a-half years into this. You can't solve for everything, day one. One of the things we can solve for right now is the liquidity and the float of our shares. We'll get there. There's no doubt. Give us some time. Give us an opportunity, and we're going to solve all of these issues one by one.

But for us, right now, we're in growth mode. And we fundamentally believe there are massive opportunities out there. You heard Adlai give you some of the statistics, not only of what we have in our pipeline, but what we've passed on. I mean, we have fundamentally passed on billions of dollars of opportunities. To sit on the sidelines and do nothing, I don't think is a value-creation strategy for our investors.

The market is a snapshot in time of what the public markets believe you're valued at. This management team feels strongly we're valued well in excess of where the public markets are valuing us. We're going to continue to execute on our strategy and look for different ways to try to raise capital and to let the market know what our underlying value is.

But yeah, we will continue to do transactions where we can issue our shares at an appropriate price.

Mark Rothschild

Okay. Great. Thank you so much.

Scott White

Thank you. Take care.

Operator

Your next question comes from Troy MacLean with BMO Capital Markets. Your line is open.

Troy MacLean — BMO Capital Markets

Good morning. It looks like occupancy for Mohawk was 87 percent. Has that trended down over the last couple quarters since you've owned it? Or is that about what you acquired it at?

Scott White

So it trends down a little bit this quarter, but not surprisingly. This is all part of our underwriting. First of all, as you know, it's not—it is a large portfolio, but not a massive portfolio. So a couple of small changes in any one building—and in fact, this is focused on one or two buildings—impacts the overall portfolio. We're aware of a couple of these groups moving out, and we do have a proactive plan for refilling that space.

Yeah. That's one of the beauties of keeping on the Mohawk team. One of the things I really love about the Mohawk transaction is that we didn't just buy buildings, and the sellers sailed off into the sunset with their cash. In fact, quite the contrary. They took back shares, and they're now our close partner in terms of re-leasing these buildings, property-managing these buildings, asset-managing these buildings. And we do have a very strong belief that you'll see that tick up in the not-too-distant future.

But your point is an astute one, Troy, in that it did tick down this quarter relative to last quarter, but it wasn't a surprise to us in terms of our underwriting.

Troy MacLean

So how much—how much NOI was impacted by the occupancy decline? And how much of that is going to roll over into Q4?

Scott White

Can you help with that, Scott? I'm not sure I know that one.

Scott Higgs

I'm sorry, Troy. Could you repeat that?

Troy MacLean

So you lost some tenants in the quarter. Is there any more downside to the numbers that's going happen in Q4 that wasn't fully—and baked into Q3?

Scott Higgs

No. So keep in mind, too, that occupancy number that you're looking at is as of June 30.

Troy MacLean

Mm-hmm.

Scott Higgs

So—because that's how we report the occupancies and operator metrics. Not materially, Troy, is the bottom line. No. I don't materially anticipate any significant downside on a portfolio basis.

Troy MacLean

And then just on the Traditions portfolio sale. How would the tenant coverage metrics or lease terms compare to the rest of the portfolio? Was it less tenant coverage with shorter lease terms?

Scott Higgs

Yeah. So the lease term was shorter.

Troy MacLean

Mm-hmm.

Scott Higgs

So on an aggregated basis, I would anticipate that our average lease length is increased after this transaction is closed. And coverage is—relative to the whole portfolio, this is a relatively small piece. So I would not anticipate any material change on a go-forward basis to the coverage.

Troy MacLean

And then just on the upsized credit facility. Does that mean you're willing to increase your target leverage? Or is this just a way to gain more flexibility?

Scott Higgs

The latter, absolutely. I would not anticipate any changes in our target leverage metrics. This is just a mechanism to efficiently consolidate and provide a lot more flexibility for us.

Troy MacLean

And then so once that's in place, will the percentage of floating-rate debt decline? Or is there any—and any guidance about what's going to happen to your average in-place interest rate, after you're through the—you get the facility in place, and you refinance the other debt?

Scott Higgs

Yeah. That's a good question. So in terms of the floating versus fixed, I don't—it shouldn't, or it won't materially impact that. That is a strategy kind of separate from this, right, in terms of how much we fix or float, but. So I would anticipate that our targets there are not going to change.

Troy MacLean

Mm-hmm.

Scott Higgs

And in terms of incremental interest rate, I would anticipate that it is a reduction in pricing.

Troy MacLean

Okay. But you couldn't quantify at this time?

Scott Higgs

No. Like, here's what I would say. In terms of the unsecured, the terms and conditions are going to be commensurate with where our peer group would be—

Troy MacLean

Mm-hmm.

Scott Higgs

—by and large, from a material perspective. So that's the guidance I would kind of put forth, so.

Troy MacLean

Mm-hmm.

Scott White

Yeah. And, Troy, we'll be more clear once it closes. It's out—we're sort of where we're marketing it, and we have strong commitments, so we know it's there. But once it closes, we'll definitely give you some more colour around it, which we do expect to close this quarter.

And we're really excited about it. I mean, this is a very big deal for us, to think about where we've come from and where we are. To go to unsecured is a meaningful statement by the credit markets.

Troy MacLean

Mm-hmm. Okay. Well, thank you. That was it for me. I'll turn it back.

Scott White

Thanks so much, Troy. Take care.

Operator

Your next question comes from Brad Sturges with Industrial Alliance. Your line is open.

Brad Sturges — Industrial Alliance

Hi. Good morning.

Scott White

Good morning, Brad.

Brad Sturges

Just to clarify a few things on the Traditions portfolio sale. So the $30 million fair-value gain. Is that mainly that portfolio? Or would there be other items within that fair-value gain?

Scott Higgs

It's predominantly that portfolio.

Brad Sturges

Okay. And how would you compare the yield of the portfolio that you're selling to the potential acquisitions that you're pursuing right now? Would it—would you see any slippage on the yield? Or are you expecting to redeploy into opportunities that are generating a similar going-in yield?

Scott White

Yeah. I think it really depends on where we end up deciding to allocate this capital. Someone asked earlier in the call if we choose to allocate it toward a share buyback. That's one set of facts. If we choose to allocate it toward seniors housing i.e. private pay or MOB, then it would be a reduction in yield. If we choose to allocate it to other skilled assets, which by the way, we are looking at, we would expect it to be very similar. This sold at a market-based price, and we'd expect to be able to redeploy it in similar skilled assets.

Brad Sturges

Okay. And then just lastly. Just walking through the arrangement of this agreement and the sharing of net proceeds. How does—is that specific to the Traditions portfolio? Or broadly speaking, with the Care portfolio? And would there be any other similar arrangements that you have in the portfolio?

Scott White

So it is very specific to this transaction, which gets back to what I said before in terms of when this was entered into, there was an expectation by the original parties that it would be a fairly short turnaround, that this was opportunistic, off-market value creation, dispose. So this was a highly negotiated split with the operator, and it is somewhat unique to other things in our portfolio. We don't have an across-the-board sharing arrangement with all the operators. Nor do we have an across-the-board sharing arrangement with Tiptree/Care on the acquisition of their portfolio.

Brad Sturges

Great. Just wanted to clarify that. Thank you.

Scott White

You got it. Thanks, Brad.

Operator

Your next question comes from Tal Woolley with National Bank Financial. Your line is open.

Tal Woolley — National Bank Financial

Hi. Good morning.

Scott White

Good morning.

Tal Woolley

Just wanted to ask, following the election in the US. There's obviously a lot of changes at the federal and state level. Any sense if there are any sort of different regulatory things we should be thinking about, going forward?

Scott White

No. Definitely not—at least not this early. As I answer that question frequently, in terms of when we think back to Obamacare and then Trump came into the administration, I get the question a lot about the impact of administrations and the impact of various political regimes/approaches and what that means for health care real estate investing.

So if you think about our portfolio, it would be most relevant to our skilled nursing portfolio. The skilled nursing does have some portion that is government-reimbursed. However, bear in mind that only part of that is federal, i.e. Medicare. Part of it is state, which is Medicaid. So changes at the federal level don't necessarily impact Medicaid. And vice versa, by the way, because there are also changes in state legislatures as a result of this election, but there's nothing indicative of a massive change any time in the short term. With all that said, it wouldn't necessarily have any impact on our seniors housing or MOB portfolio.

And also, it gets back to something I said earlier. We're building a forever portfolio. We're acquiring these assets with the expectation that these buildings, the demand for them will go on for many years—10, 15, 20 years. And any blips or changes in administration tend to have short-term impacts. Obamacare was something that people talked about at great length, and it was a massive change in health care regulation in the view of the world. And by the way, it only had a minor impact on the industry. And now, here we are, a couple of years later, and Obamacare is in the rearview mirror.

Tal Woolley

Okay. And then just with respect to your internal forecast that you guys are carrying, were there any significant variances in performance amongst the different asset groups?

Scott White

No.

Tal Woolley

No? Okay. And just finally on the medical office portfolio, what sort of NOI margin should we be thinking of? What does that business traditionally run at?

Scott White

Higgs, you want to take that one?

Scott Higgs

Yeah. And, Tal, I can get you some additional information to help that. You know, from—on balance sheet, we're probably—or in our portfolio in total, it's in the, call it, 15 percent range.

Tal Woolley

Sorry. Fifteen percent NOI margin?

Scott Higgs

Yeah.

Tal Woolley

Okay.

Scott Higgs

But I'll walk you through how I get to that number.

Tal Woolley

Got it. And sorry, just one last thing too. I know you guys don't disclose the number officially. But I'm just wondering if, directionally, same-property NOI growth. Are you able to offer any colour around how that's been trending for the assets you've had on the longer basis?

Scott White

Higgs, you want to take that one?

Scott Higgs

Yeah. So—yeah. So on the triple nets, right, it's really the same-store is on—is effectively at our—at our rent escalators, which is in the 2 to 2.5 percent range. So on a same-store, that's really the run rate on the stabilized portfolio. On the—on the JVs, it's really still pretty early on, but we've seen some modest growth there in our ownership period, which is only six to eight months, right, so.

Tal Woolley

Right. Okay. Perfect. That's it for me. Thank you.

Scott White

Thanks, Max (sic) [Tal].

Operator

Your last question comes from Chris Couprie with CIBC. Your line is open.

Chris Couprie

Actually, Tal asked my question regarding the election results. But maybe I'll just ask, you guys attended NIC MAP. Just wondering if you have any colour as to what—how industry was feeling? Any more update onto the implementation of PDPM and how that might impact sector [audio gap]?

Scott White

You want to take that one, Adlai?

Bryan Hickman — Senior Vice President, Investments, Invesque Inc.

Hey, Scott. This is Bryan. I'm happy to handle this. So as it relates to PDPM, I'll say a couple of things. One is most of us in the industry are still sort of anxiously awaiting all the specific details with respect to what the implementation is going to look like. As it relates to 2019 specifically, the impact is going to be fairly modest—

Chris Couprie

Right.

Bryan Hickman

—because the implementation doesn't start until fourth quarter. So really, what you're talking about is sort of 2020 implementation and beyond.

What I'll say about our portfolio relative to some of the others in the sector and the relevance of PDPM, it's clearly very relevant to us. And I say that because on an—compared to the industry average, we have a greater quality mix percentage relative to most of the peer group.

And when I'm saying quality mix, I'm referring to your patients that are medically complex, those that are funded by Medicare and commercial insurance payers, and those are the ones that are most likely to be impacted by these new payment regulations associated with PDPM. So the bottom line is, it's something that is clearly top-of-mind for us and the rest of the team. We're talking about our operators—or talking with our operators, about their readiness to adopt the new regulations.

But I would be very reluctant to give you specific guidance with respect to how it's going to impact our portfolio, other than I'd say we generally agree with most of those in the space that it's more likely than not to be positive for those operators that A) are very reliant on medically complex patients or have a high percentage of medically complex patients; and B) are sophisticated enough to meet the adoption standards.

Chris Couprie

Thank you.

Operator

This concludes—

Scott White

Thanks.

Operator

This concludes today's conference call. Thank you for your calling in. Have a great day.

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