Invesque Inc.

Third Quarter 2019 Earnings Conference Call

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Tal Woolley
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PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to Invesque's third quarter 2019 earnings conference call.

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

Scott Higgs — Chief Financial Officer, Invesque Inc.

Thank you, and good morning, everyone. Thanks for joining the call. With me today are Scott White, our Chairman and 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 then cover our third quarter financial results and Adlai will recap our portfolio performance, recently announced investments, and strategic efforts before starting the Q&A portion of the call.

The third quarter 2019 earnings release financial statements and MD&A are available on our website and a replay of this call will be available from 12:45 p.m. Eastern today until 11:59 p.m. Eastern on November 21st.

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 — Chairman and Chief Executive Officer, Invesque Inc.

Good morning, everybody. Thank you all for joining our third quarter earnings call. When we spoke to you about 90 days ago, I noted that one of our key areas of focus for the remainder of 2019 was managing and maximizing the value of our existing portfolio.

Invesque is one of the fastest-growing publicly traded real estate companies in North America. That growth requires that we constantly monitor and assess the performance of our portfolio. This process ensures we are achieving our long-term goal of building a world-class portfolio with a stable of preferred operators who can maximize the performance of each one of our assets. I could not be prouder of our team's execution on this portfolio management initiative this past quarter.

In our last earnings release, we announced that we were transitioning 12 communities in five states to a pair of Invesque's key operating partners; Commonwealth and Heritage. These communities were historically operated by Greenfield. We originally anticipated that the transitions would occur by year-end. Since the announcement, we have been focused on consummating the transitions as quickly as possible. We proactively came to an agreement with Greenfield to expedite the process and are pleased to report that currently, all 12 of the communities are being managed by Commonwealth and Heritage, months ahead of our original timeline.

As of today, Commonwealth is now managing 10 of the former Greenfield-operated communities and Heritage is managing two of the communities. We believe ensuring the success of the new operators of these communities and value maximization to Invesque required making the transitions quickly. We appreciate the assistance of Greenfield in helping to execute this speedy transfer of operations. Adlai will touch on the specifics of the transition later in the call.

Additionally, we made a concerted effort to strengthen our portfolio by ensuring that we have as many assets as possible included in master lease structures. The advantage of master lease agreements is that the underlying assets are treated as a single, cross-collateralized portfolio with one consolidated rent amount. The master lease structure is important to Invesque because it is administratively efficient. The structure also reduces credit risk in times of stress because of the cross-collateralization and single rent payment obligation.

Sometimes there are circumstances where we are unable to consolidate, such as having secure debt with different lenders. In these cases, we have worked with our operators to insert language in most of our leases, which gives us the ability to consolidate in the future at our option. Such consolidations occur without material changes to other terms of the relevant leases.

Following our efforts this quarter, roughly 92 percent of our contractual rent in our triple-net lease portfolio comes from assets included in master leases or single leases where we can consolidate the assets into a master lease structure. This represents a significant uptick from approximately 77 percent at the end of 2017. Our percent of rent in our triple-net lease portfolio subject to master leases is at the high end of the industry relative to our publicly traded competitors.

Moving to our investment activity, we've had a very busy third quarter. In August, we acquired the first 17 communities of the previously announced Commonwealth transaction. As a reminder, the Commonwealth acquisition is comprised of 20 communities with over 1,400 private-pay independent living, assisted living, and memory care units located in Virginia and Pennsylvania. We acquired the Commonwealth portfolio at approximately $236,000 per unit, which represents a 20 percent discount to our estimate for replacement costs.

Along with the acquisition of the first 17 communities, we also acquired Commonwealth management company. The acquisition of the final three communities is expected to close by year-end, subject to lender and regulatory approval. The senior management team and the community-level leadership team have remained with Commonwealth and will continue to manage the communities.

The Commonwealth transaction has added a highly differentiated, vertically integrated operating and property management company to the Invesque platform. The Commonwealth transaction now positions Invesque as a predominantly private-pay health care real estate investment company with approximately 55 percent of our pro forma NOI coming from seniors housing and over 40 percent of our NOI coming from seniors housing operating portfolio. This portfolio mix provides us both greater diversification and operational upside. It also significantly reduces the government payor source exposure of our nearly $2 billion health care real estate portfolio.

In the third quarter, we also closed on the previously announced acquisition of three memory care properties developed by Ellipsis and operated by Constant Care for approximately $31 million. The properties were added to our existing 15-year absolute net master lease agreement with Constant Care and expanded our relationship with them to seven properties, representing roughly 3 percent of our NOI on a pro forma basis. Adlai will touch on our relationship with Ellipsis and Constant Care a bit further later in the call.

Let me now comment on some important industry themes. As we noted over the last couple of quarters, we have observed a recent drop-off in new construction starts. The recently published third quarter NIC MAP Data really highlighted this trend. We have long believed that the gap between demand and supply is more important than just focusing on the supply side of the equation.

Third quarter 2019 annual absorption of 3 percent, offset by 2.9 percent inventory growth marks the second time this year that net absorption has been positive for the sector. The last time net absorption was positive for the sector was 2015. This is an important metric as we assess the current state of the supply-and-demand dynamics.

Furthermore, supply and assisted living continues to improve with construction as a percent of inventory at its lowest level since 2013. This is especially relevant to Invesque because our seniors housing portfolio is more than 80 percent concentrated in assisted living and memory care units. It's important to note that today's demographic growth of the 80-plus age group is much stronger than five years ago. While we're certainly not calling a bottom, we do believe that seniors housing occupancy may see its first year-over-year increase in 2021 as supply growth slows and demographic growth accelerates.

Trends continue to diverge between the primary and secondary markets, with development activity falling more quickly in the secondary markets, which is where Invesque has invested in seniors housing to date. Excluding the top 31 markets, more than half of the remaining top 100 markets feature assisted living construction below 3 percent of inventory. So we will consider opportunities at top MSAs; we still continue to focus on midsize secondary markets. These markets continue to provide us the opportunity to invest in sizable, scalable, and high-quality opportunities at a discount to replacement cost like we did with the Commonwealth transaction.

On the skilled nursing front, we are now 45 days into the implementation of the 2020 Medicare SNF rate update and PDPM, both of which began on October 1st. As a reminder, CMS increased Medicare payments by over $850 million, or about 2.4 percent, to skilled nursing facilities. While we have not yet seen detailed financial results from the impact of PDPM and the Medicare rate increase, our operators are telling us that the revenue impacts are positive.

Other publicly traded owners of skilled nursing facilities as well as operators have similarly expressed that PDPM will be positive for the industry. We remain cautiously optimistic on the ability of our sophisticated operators to thrive under the new payment model.

Under PDPM, operators can achieve higher Medicare rates for clinically complex patients. We believe that the transitional care assets in our portfolio are uniquely positioned for success with such clinically complex patients. Our transitional care portfolio features 90 percent private-pay units, well above the industry average. These provide an ideal clinical setting for such patients compared to semi-private units. Beyond the revenue impacts, the new payment model reduces the emphasis on physical therapy and allows operators to capitalize on group therapy options, which may also provide cost savings.

As we close out the year, I'm extremely pleased by what we have accomplished in 2019. By year-end, we'll have executed on over $440 million of acquisitions and successfully executed on several portfolio management initiatives in a very efficient manner. As we look ahead to 2020, we'll continue to focus on enhancing the value of our current portfolio while opportunistically sourcing appropriately priced capital to continue to execute on our very robust pipeline.

With that, I'll pass it to Scott Higgs to talk about our third quarter performance and recent capital markets activity.

Scott Higgs

Thanks, Scott. For the quarter ending September 30th, FFO was $0.23 per share and AFFO was $0.20 per share. Our effective dividend cash payout ratio, when adjusted for DRIP participation, was approximately 75 percent for the three-month period.

With the movement in interest rates continuing to provide for a favourable debt market, we remain active in sourcing attractively priced new debt and refinancing existing debt at lower rates. Year to date, on a weighted-average basis, we have lowered the effective rate on our debt by approximately 35 basis points through a combination of issuance of new debt, refinancing existing debt, and utilization of financial instruments to create long-term cash flow stability. Today, our average debt maturity stands at approximately four-and-a-half as of the end of the quarter with only 16 percent of our debt rolling over the next three years.

As we discussed last quarter, one of the highlights of the third quarter from the financing side includes blocking in the rate on our new credit facility underlying the Commonwealth transaction at a very attractive 3.84 percent through its initial five-year term. Upon closing of the second tranche, the Commonwealth transaction consideration will consist of the new $176 million debt facility, assumption of approximately 44 million of mortgage debt, the issuance of approximately 65 million of convertible preferred shares, and the remainder funded with cash. As a reminder, the convertible preferred shares have a conversion price of $9.75, thus allowing us to effectuate the transaction at a better cost of capital than our current stock price would imply.

On the capital front, we closed on a previously announced private placement of convertible preferred shares with Magnetar in the third quarter for net proceeds of approximately $14.6 million. The preferred shares carry similar terms to the prior raises of convertible preferred we have completed with Magnetar as a counterparty, except for the terms noted in the press release from July 23rd. As a reminder, the total convertible preferred outstanding with Magnetar is roughly $86 million, with a $9.75 per share conversion price and a blended dividend rate of approximately 6.3 percent.

We continue to look across our capital structure to create value for our shareholders. On that note, in the third quarter, we introduced the Canadian-dollar listing of Invesque’s common stock on the TSX under the ticker IVQ. As we gauged market interest in our stock from current and potential shareholders, we heard consistent feedback from counterparts on their desire to invest in the Canadian local currency. The successful implementation of this Canadian-dollar listing has increased our aggregate daily trading volume by over 50 percent.

Additionally, we remained active during the third quarter in repurchasing shares under our current NCIB plan. Year to date, we have repurchased approximately 33,600 shares at an average price of $6.34, which represents a significant discount to Invesque's intrinsic real estate value. We will closely monitor market conditions and opportunistically repurchase stock at price points we believe provide the best investment opportunity for our shareholders.

With that, I'll pass it over to Adlai to discuss our portfolio performance and investment activity.

Adlai Chester — Chief Investment Officer, Invesque Inc.

Thanks, Scott. The performance of our stabilized triple-net portfolio remained consistent with previous quarters. On a trailing 12-month basis as of June 30th, our EBITDAR and EBITDAR and coverage ratios were 1.2 times and 1.5 times respectively. Our trailing 12-month occupancy as of June 30th stood at 85 percent for our triple-net assets and 88 percent for our stabilized JV assets. For the MOB portfolio, stabilized occupancy stood at 92 percent. These metrics have remained relatively consistent throughout this year.

As Scott mentioned earlier in the call, we are very excited to announce that we have successfully transitioned our communities formerly operated by Greenfield to Commonwealth and Heritage, well ahead of our year-end target. When we set out to execute on the transition and utilize the horsepower of our vertically integrated senior housing operator, Commonwealth, we focused on effectuating this transition as quickly as possible with minimal or no disruption to the residents, employees, and operations.

With Greenfield's assistance, we were able to expeditiously complete a smooth transition under interim agreements in some cases.

As part of the transition, 10 of the communities operated by Greenfield have now been transferred to Commonwealth and will be owned, operated, and managed by Invesque affiliates. We also expanded our relationship with Heritage by transitioning to them two Greenfield communities in Pennsylvania and New Jersey. The communities are in markets where Heritage successfully operates communities on behalf of Invesque.

Combined with their existing presence, Heritage will now have enhanced pricing power and operating synergies within its group of communities. We are confident in the ability of Commonwealth and Heritage to drive performance by implementing their operational expertise in creating synergies with the Invesque communities they currently operate.

We are currently evaluating options for the final Greenfield community, located in Arlington, Texas, and we'll provide an update on this next quarter.

The Greenfield transition allowed us to quickly scale and capitalize on our recent acquisition of the Commonwealth operating and management company to create the largest seniors housing operator in Virginia and a premier operator in the mid-Atlantic. Commonwealth will now represent our largest source of NOI at approximately 26 percent. And Heritage is now our third-largest operator at a little under 9 percent of our NOI. Symphony will now represent roughly 24 percent of NOI, down from approximately 70 percent at the time of our IPO a little over three years ago.

The transition of the Greenfield communities is anticipated to be $0.03 to $0.04 accretive to 2020 AFFO per share. Combining the accretion of the Greenfield transition with the Commonwealth transaction, we anticipate $0.09 to $0.12 of accretion to 2020 AFFO per share.

Moving on to our other investment activity during and subsequent to the quarter, we closed on a mezzanine loan investment to Ellipsis to fund the development of a 42-bed, Class A, freestanding memory care building in the Grand Rapids, Michigan MSA. The property is currently under construction with a targeted completion of next summer and will be operated by Constant Care. As in the past with agreements with Ellipsis, we will have the right to purchase this property at fair market value at its completion.

Our proprietary relationship with Ellipsis continues to be a huge success and highlights our relationship-driven approach to investing with our preferred partners. The partnership provides us exclusive access to a right of first offer to invest in all of their senior housing and medical office development projects. We also have the right to purchase these properties upon completion. Partnering with Ellipsis and Constant Care is a great way to grow and capitalize on our development platform, and you should expect to see us continue to do this with both of them.

Our pipeline of growth opportunities continues to be very robust. During the third quarter, we have witnessed a significant uptick in potential MOB transactions in Canada and the US. With our growth over the last several years providing us the scale and diversification we set out to achieve over three years ago, we will be very selective on future acquisitions. We remain disciplined in our underwriting with a focus on opportunistically recycling capital, acquiring assets at a discount to replacement cost, and assuring that any external growth is done in an accretive manner.

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

Q&A

Operator

At this time, if you would like to ask a question, please press *, followed by the number 1 on your telephone keypad. To withdraw your question, press the # key. We'll pause for just a moment to compile the Q&A roster.

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

Stephane Boire — Echelon Wealth

Hi. Good morning. It seems pretty obvious that you are consolidating your recent acquisitions and your long list of acquisitions and your operations as well, which I think creates a little bit of noise in the reporting and the numbers. And I was wondering how long do you expect the consolidation phase to last. Or do you have a timeline? And I guess a side question is, do you see other opportunities where you could enhance the performance of the portfolio?

Scott Higgs

Yeah. On the consolidation, Stephane, we think, by the end of the fourth quarter, some of the, as you termed it, noise will be cleaned up, and we'll have a fresh start, clean January 1 of 2020.

Scott White

Yeah. And in terms of opportunities to enhance value in the portfolio, we do that every day, Stephane. It's a key area of focus for us. So we have a dedicated team of professionals that their sole responsibility is to meet each of our operators on a regular basis and think about ways that we can enhance value, think about our portfolio holistically. Are there assets in our portfolio that don't make sense anymore for various reasons? Are there assets in our portfolio that could be managed by a better operator?

And what you've seen us accomplish over the last quarter and I mentioned this in the prior earnings call is this is a real significant focus for us right now. When you acquire as quickly as we did, and that was a real focus for us, now it's time to step back, catch your breath, and say okay. How do we enhance value in the existing portfolio?

One was the transition we made with regards to Commonwealth and the Greenfield asset. Two, you've seen we've selectively sold off an asset or two over the last couple of quarters. We continue to look for ways to enhance our portfolio. Even the initiative that we talked about today with regards to going through all of our leases and making sure that they are all as collateralized master leases, that's all about enhancing the value of our overall portfolio and all about active asset management.

Stephane Boire

Right. And in that sense, have you ever quantified the, or do you have a number in mind of, the number of assets, I guess, or the value of assets you would like to dispose in the coming quarters?

Scott White

No. We have not. We don't set a target for a number of assets or dollar value of assets we would want to dispose. We merely look at our portfolio holistically and say what is the highest and best use of our time and resources. Which assets make sense to grow value? And which assets quite frankly don't make sense?

So let me give you an example of why you'd eliminate an asset or sell off an asset. Last quarter, we sold off an asset, which was one asset that had an operator, that was the only asset in our portfolio with that operator. So one single asset, stand-alone, with an operator, and when we stepped back and thought about how we can enhance the value of our portfolio and, equally important, enhance the relationships we have with our operators, it's very important. Utilizing resources and time and energy to build a relationship with an operator, when you have one small asset in a portfolio, that's how we kind of look at it, Stephane, and say okay. That doesn't make sense in terms of our long-term goals.

But we definitely don't sort of start the year or have a strategic plan that says okay. We want to grow by x-hundred million, and we want to reduce by x-hundred million. It's just not how we do it.

Stephane Boire

All right. Okay. And just a last one. Scott, you mentioned that the operators have not necessarily started to see the positive impact of the PDPM system at the moment. I don't want to put words in your mouth, but that's the way I interpret it. And I was wondering do you have an idea of when operators could start to see the benefits of this system? And is it something that you expect will impact their 2020 numbers, for instance? Or is it something that you expect in the much longer term?

Scott White

Yeah. So let me clarify, I don't think I'd go so far as to say operators have not seen the impact of PDPM. I think there isn't enough time in the system for the financial statements to be closed out, sent to us to review to see if there's been any sort of impact of PDPM. We have heard anecdotally, and we stay very close to our operators—

Stephane Boire

Mm-hmm.

Unknown Speaker

—both our operators, and more broadly in the industry, that there have been positive impacts. Now I think it's really important, and I'm going to emphasize this, that PDPM is budget-neutral. So it is not increasing the number of dollars in the system. It is merely reallocating the number of dollars in the system to operators that perform a certain way.

We believe, as we look at our portfolio, that we have a—our skilled operators are very sophisticated, very experienced. They've been doing this a very long time. There's some of our operators have been in business 30, 40 years. They understand that there are shifts in payment paradigms. They understand that the goal of this is to provide better care for our residents at a lower cost to the overall system. However, those that provide that better care in a more efficient manner will end up with a disproportionate share of the pie. And we fundamentally believe that our operators are going to do that.

I absolutely do think you will see this in 2020 numbers. I think it's very hard to quantify. And I also want to be very—the word I used was cautiously optimistic, and I'm going to emphasize that. I don't think this necessarily is going to change the world, and all of a sudden you're going to see massive increase in NOI because of PDPM. I think you're going to strengthen some operators that may have historically been struggling because now they have a real opportunity to demonstrate they can deliver better care in a more efficient manner and be rewarded for that.

Stephane Boire

Right. Okay. Makes sense. Okay. Well, thank you for the colour. I really appreciate it. That's it for me. I'll turn it back.

Scott White

Have a good day.

Stephane Boire

Thanks. You too.

Operator

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

Mark Rothschild — Canaccord

Thanks and good morning, everyone. I realize there's been a lot of transition in the portfolio, but a good chunk of these assets have been on for some time already. So I'm wondering if you can quantify at all, the changes in same-store NOI for the quarter as compared to last year. And maybe if that'd be helpful if we can get by the different segments as well?

Scott White

Thanks, Mark. So that's certainly something that you may have noticed in our last couple quarters, we've been continuing to enhance the disclosure, add to the footnotes, try to provide more data. We expect to start doing that in the new year. We're not at that point yet.

Well, while you do say a number of these assets have been in the portfolio awhile when you think about it year over year, they actually haven't. A lot of the assets were acquired either this year or last year, without a full year. So even if you acquire them in 2018 and you acquire them, call it in May, then you don't have full 2018 year-over-year. By 2020, we do expect to start doing that more and more, and we've been asked this question before. We acknowledge and respect the fact that this is better and more transparent disclosure to the market. You should expect to see that out of us in the new year.

Mark Rothschild

But for the quarter, you've had a good chunk of the assets even if they were bought earlier last year. Is there a reason that you don't disclose this information?

Scott White

Not exactly. There's no reason other than as we were building the portfolio, we didn't have a whole lot of comparative. And as you've seen, we've continued to enhance the disclosure each quarter, and this is something that we expect to enhance in the new year.

Mark Rothschild

Okay. Thanks. In regard to your leverage, should we expect you to stay around this range over the next year or so? Or through the transition that's going on now, do you focus at all, in the near term, on bringing it down? Or is this the level that you'd be comfortable at?

Scott White

Yeah. So you know, Mark, we used leverage. One, in a very inexpensive cost of capital universe, we think leverage is an appropriate tool as we build this portfolio. Two, as we focused on growth with limited access to capital, we used leverage as one of those tools to continue to grow our portfolio. We're very comfortable at our current leverage levels.

We don't expect to increase leverage. Let me make that pretty clear. But we're also not in a hurry to delever. Will we selectively delever over time, given cash flows and if we believe that is the best use of the dollars? Absolutely. But it's not a key strategic goal for us to delever immediately.

Mark Rothschild

Okay. Thank you.

Scott White

Thanks so much, Mark.

Operator

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

Chris Couprie — CIBC

Good morning. Just wanted to touch on the Commonwealth as well as the operator transition or the Greenfield transition. With respect to Commonwealth, can you give us any indication as to what occupancy was while you owned it and how it ended the quarter? And maybe any colour in terms of how this portfolio has done maybe on a year-over-year basis?

And then second question is with respect to operator transitions. Are there any other operators that you're currently looking at as potentially onboarding into the Commonwealth platform?

Scott White

So let me address the first one. We haven't disclosed property-by-property occupancies. I can tell you that occupancy has trended up since we've acquired the portfolio. Now bear in mind, we only acquired that portfolio August 1st, so there isn't a long data set to look at, but it is trending in the right direction And part of our underwriting and our expectations when we acquired that portfolio was to buy at a certain level and to enhance occupancy among other value-creation methods.

I think your second question was with regards to do we expect to put Commonwealth in other assets. At the moment, the answer is no. And I say that only because I—and actually I shouldn't say at the moment. As I look at the lens of sort of over the next couple quarters, Commonwealth really needs to absorb. We just put 10 exciting properties in that portfolio for them to absorb and for them to start managing, and I think that's going to be a key area of focus. Would I expect the Commonwealth portfolio to grow over time? Absolutely.

Chris Couprie

Okay. And then with respect to the PDPM, you hinted that you're optimistic that your operators will be the beneficiaries of the new regime. Would you say that's a comment for all your operators?

Scott White

Certainly all of our meaningful skilled operators. As I sort of tick here through my head, I would say—so let me put it this way. Every one of our operators can and should be successful under PDPM. I have absolute confidence that all our operators will succeed.

With that said, I think some of our larger, more sophisticated operators have a disproportionate opportunity to succeed because PDPM is a sophisticated payment paradigm. I think it's going to create a shift in the industry, quite frankly. I think you are going to continue to see a shakeout of smaller operators. I think it's going to be very difficult for the proverbial mom-and-pops to get their arms around PDPM and what it means.

We don't have mom-and-pops in our portfolio but we do have some varying sizes of operators in our portfolio. Every one has the opportunity and the expectation to succeed under PDPM. I think some of our larger-scaled operators really have an opportunity to succeed.

Chris Couprie

Okay. And then with respect to the fact that 92 percent of your (unintelligible) lease portfolio is now under a master lease or that type of a structure, what was it sequentially? And what are the kind of obstacles that you have in getting to that structure? And are there any concessions that you need to make going from what it was to a master lease?

Scott White

So the sequential question, I don't know what it was sort of quarter over quarter if that's the question or year over year. I know as you rewind two years, which is how we looked at it, we went from 77 percent to the current 92 percent.

With regards to obstacles, concessions, no. We absolutely don't have to do that. We worked with each of our operators to either consolidate or put language in to give us the ability to consolidate. The biggest obstacle to ultimately consolidating these leases into master leases has to do with the debt. Sometimes when we acquire these assets with separate leases and separate debt providers. And it is challenging as you can probably imagine to ask separate debt providers to give us some of their security interests and cross-collateralizing with other debt providers. So that's the only thing that holds us up from really master leasing the entire portfolio.

But again, through the excellent work of our portfolio management team, we've gone ahead and added language to our leases that say, at our discretion, when we think the time is right, we'll have the ability to consolidate. And that will happen over time.

I talked before in one of the original questions we got from Stephane on portfolio management. We've acquired a lot of assets over a short period of time. Each of those assets had varying leases, varying debt, so on and so forth. So what we've spent the last quarter and, I will tell you, the next quarter and probably some of 2020 on is really trying to clean all this up and strengthening the portfolio and absorbing everything that's been acquired.

Chris Couprie

Okay. Thanks. I'll turn it back.

Scott White

Okay.

Operator

As a reminder, if you'd like to ask a question, please press *, followed by the number 1 on your telephone keypad.

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

Tal Woolley — National Bank Financial

Hi. Good morning.

Scott Higgs

Good morning, Tal.

Scott White

Good morning.

Tal Woolley

Just wanted to ask a bit about on the seniors housing side, the management of the assets going forward. So you integrated a lot of these recent deals under the Commonwealth brand. Is there a point at which it makes sense to also try and find some opportunities to consolidate between the Care IT assets and Commonwealth?

Adlai Chester

So, Tal, this is Adlai. With the Greenfield transition, that's actually what we did. So Greenfield was part of the original care portfolio.

Tal Woolley

Okay. So that was the part of it.

Adlai Chester

Yeah. Yeah. Exactly right.

Tal Woolley

Got it.

Adlai Chester

And but to further expand on that. To the extent we have operators that are operating one or two buildings that we think make sense to consolidate, whether it be with Commonwealth or another preferred operator, we are going to continue to look at that. We believe that having our operators gain more efficiency with more buildings clustered in certain areas is that key focus for us over the coming years.

Tal Woolley

Okay. And then, you sort of said that you want to slow down or want to keep the acquisition pace sort of a little bit more moderated going forward. What are the things that you're finding right now that are the most interesting to you?

Adlai Chester

Yeah. So I think as we look at the opportunities that come through, it's typically right now that, from a risk-reward standpoint, senior housing and medical office is what we're seeing. I would say a little bit more skewed to the medical office. So we're encouraged to continue to add to that platform as well as the senior housing stuff. To say we won't do a skilled deal. But at this point in time, that's where the opportunities we're seeing that are most compelling.

Tal Woolley

Okay. And at any point do you think about internalizing the management team for the medical office profile if you're going to continue to grow that?

Adlai Chester

Yes. I mean obviously, that's something we've considered. We're not at the size where that makes sense at this point in time, but definitely something that would be on the horizon if we're able to meaningfully grow that platform.

Tal Woolley

What's the size that you'd be looking for before you did that?

Adlai Chester

Yeah. I mean I think, we're at call it $150 million now, roughly. I think it's going to have to be substantially bigger than that, maybe call it half, maybe $500 million before we'd start thinking about it.

Tal Woolley

Okay. And if you're going to run—you're going to be running with higher leverage, and I understand the rationale for that on your side, are there more things that you think you can see yourself doing to optimize your cost of debt going forward?

Scott Higgs

Yeah. I think there continues to be. Tal, it's Scott. So I think we're continuing to look at it. We did quite a bit of activity during the third quarter, but absolutely. I alluded to this a little bit, but in terms of refinancing existing deals, we're constantly looking at that or consolidation of debt at utilizing the current rates and everything. So absolutely, I think there could be some more opportunity, and you could see some more of that in the next couple of quarters.

Tal Woolley

Okay. But that'll take some time for it to unfold then is sort of a way to think about that. It's an ongoing process. Nothing dramatic in the near term.

Scott Higgs

I think that's fair.

Tal Woolley

Okay. Perfect. Thanks very much, gentlemen.

Scott Higgs

Thanks, Tal.

Adlai Chester

Take care and thanks.

Operator

We have no further questions. Ladies and gentlemen, this concludes today’s conference call. Thank you for participating. You may now disconnect.