Invesque Inc.

Third Quarter 2020 Earnings Conference Call

Event Date/Time: November 12, 2020 — 10:00 a.m. E.T.

Length: 41 minutes

CORPORATE PARTICIPANTS

Scott Higgs
Invesque Inc. — Chief Financial Officer

Scott White
Invesque Inc. — Chairman and Chief Executive Officer

Adlai Chester
Invesque Inc. — Chief Investment Officer

CONFERENCE CALL PARTICIPANTS

Fred Blondeau
iA Securities — Analyst

Chris Couprie
CIBC — Analyst

Mark Rothschild
Canaccord — Analyst

PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to Invesque's third quarter 2020 earnings conference call.

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

Scott Higgs — Chief Financial Officer, Invesque Inc.

Thank you, James. Good morning, all, and thank you for joining the call this morning. With me today are Scott White, our Chairman and Chief Executive Officer; and Adlai Chester, our Chief Investment Officer.

Scott will kick things off with some colour around the ongoing COVID-19 pandemic and its impact on our portfolio, as well as overall industry news and trends. I will then cover our third quarter financial results, and Adlai will recap our portfolio performance and strategic efforts before starting the question-and-answer portion of the call.

Please note that the third quarter 2020 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 Time today until 11:59 p.m. Eastern Time on November 19th.

Before I turn the call over to Scott, 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, all, and thank you for joining us this morning to discuss the Company's third quarter results.

Our operating partners continue to face the challenges of the global pandemic daily. And I would like to say thank you, once again, for their ongoing efforts as they care for the most vulnerable population. We are eight months into the pandemic, and these frontline caregivers continue to show up day after day to provide a safe environment for our patients and residents. They are true heroes, and we are all incredibly grateful.

As we've discussed in prior quarters, we continue to focus on our asset management initiative to maximize our portfolio value and ensure we have the right operating partner in each of our 120 assets. I'm excited to share that we have reached a nonbinding agreement with Symphony for a framework that outlines our relationship with them going forward. Symphony has been one of our key strategic partners since our founding, and we remain committed to partnering with them.

The pandemic has been particularly hard on the skilled nursing sector, and Symphony is not immune. They have worked incredibly hard to keep residents and staff safe in a very difficult environment. The pandemic has taken a meaningful toll on the operations of the Symphony portfolio, including reduced occupancy and increased operating expenses. We have been working diligently with them for several months to address the immediate needs created by the pandemic, along with a long-term, mutually beneficial structure.

The agreed-upon framework includes a combination of asset sales back to Symphony, a transfer of operations of some assets to a new operating partner, and an amendment to our existing master lease for the remaining assets in the portfolio. Symphony remains an important strategic partner of ours, and we look forward to solidifying our relationship for long-term success. Adlai will go into further detail on this later on the call.

I'm also happy to report that we have successfully modified our senior credit facility with KeyBank to allow for additional flexibility. As we navigate an uncertain operating environment, we have been maniacally focused on being proactive so that we can preserve liquidity and strengthen our balance sheet. The modification of the corporate credit facility is an integral step in achieving this goal. We're grateful for our banking group and our credit partners' commitment to Invesque. Scott Higgs will provide some additional specifics regarding the modification later in the call.

As our publicly traded peers have indicated over the last couple of weeks, the COVID-19 virus continues to create a challenging operating environment for the seniors housing industry. Our portfolio management team remains in frequent contact with our operators, and we're pleased to report the low rates of virus positivity we observed over the last few months have continued.

As of November 6th, roughly 75 percent of our seniors housing and skilled nursing properties have been impacted with positive COVID-19 cases in residents and our staff since the beginning of the pandemic. With that said, we currently have only 28 total patients or residents with COVID-19, being treated and quarantined in Invesque communities. This is a noteworthy feat as COVID-positive patients currently represent only about 25 basis points of the roughly 11,000 beds across our entire portfolio. This is also a significant decrease from the high point we saw in May and June, at which time, there were over 700 positive COVID-19 cases within our portfolio.

This trend has remained consistent despite many states reopening and a recent surge of COVID cases across the United States. Status of reopenings within our portfolio is driven by state and local mandates, and many of our communities have reopened for in-person tours, small group activities, communal dining, and are now allowing some form of family visitation. It goes without saying that our operating partners continue to be cautious about the reopenings, and it is their highest priority to ensure the safety of patients, residents, and staff. Again, we thank our operating partners for the tireless efforts to deliver high-quality care and contain the virus that continues to plague much of the industry.

As we noted on the last earnings call, skilled nursing operators had received government funding relief under the Cares Act, but there was yet to be any relief to seniors housing providers. We are pleased to report that over the last few months, HHS made relief funding available to seniors housing operators, and most of our partners that submitted applications for Care Act relief have received funds. The relief funding was generally equal to 2 percent of historical annual revenues. Many of our operating partners have also applied for and received state and local grant funding that was made available to local businesses.

To date, our operators have received more than $60 million from various funding sources, the majority of which was received by our skilled nursing operators. This relief funding is being used by our partners to offset a portion of the lost revenue and the increases in operating expenses that have been incurred since the pandemic began.

As you will recall, Commonwealth Senior Living is our wholly owned management company that now manages over 30 communities. This ownership structure provides us unique insight into what is happening in real time. We continue to be very pleased with the Commonwealth platform and the team's ability to maintain NOI in a challenging environment. Commonwealth benefitted from pent-up demand in June, July, and August, as the communities began their phased reopening plans. The portfolio of 20 communities that we acquired in 2019 saw a 370 basis point improvement in NOI from Q2 to Q3, while only incurring a 10 basis point dip in occupancy during that same period. This is particularly noteworthy, as it excludes any impact from government funding.

The National Investment Center for Seniors Housing & Care, commonly referred to as NIC, reported in October that seniors housing occupancy for the industry as a whole in the third quarter of 2020 continued to decline to a new record low of 82.1 percent. This represents a reduction of 260 basis points from the second quarter of 2020 and 560 basis points reduction from the first quarter of 2020.

Assisted living occupancy dropped almost 300 basis points in the third quarter of 2020. We have seen similar reductions in occupancy across our portfolio, and some of our operators have continued to note a decrease in overall enquiries, tours, and move-ins. We expect occupancy pressures will continue throughout the fourth quarter and into 2021 for the entire industry.

Despite the challenges that continue to face our sector, I remain very optimistic about the future of seniors housing industry, as well as our company. During 2020, we have executed on several strategic management transitions and asset sales that strengthen our portfolio, continued to integrate the Commonwealth platform, and prioritized our company culture while we continue to work remotely. Our focus remains strong as we head toward the end of the year and into 2021 and continue to support our existing operating partners.

With that, I'll pass it back to our CFO. Scott, take it away.

Scott Higgs

Thank you, Scott. For the quarter ending September 30th, FFO was $0.25 per share and AFFO was $0.22 per share. As we discussed earlier this year, the Company took a series of actions in the second quarter to improve our liquidity position and preserve cash due to the unknown impact of COVID-19.

We announced the suspension of dividend to common shareholders as of April 1st, resulting in approximately $41 million of gross cash preserved on an annual basis. In addition to the dividend suspension, the Company took cost-mitigation measures, including G&A reductions, the deferral of noncritical capital expenditures, and engage in opportunistic refinancings of certain assets to take advantage of the current rate environment.

During the third quarter, we executed on multiple financing transactions that will reduce our annual debt service by over $500,000. We continue to look across our debt stack to maximize flexibility in and arbitrage the historically low interest rate environment.

Turning to our announcement this morning regarding our corporate credit facility. Over the last 60 days, we worked closely with KeyBank and our bank group to modify our senior unsecured credit facility. The modification provides us an incremental surge period through June 30, 2021, which will allow us to maintain our current leverage on a consolidated basis with the existing unencumbered asset pool. During the incremental surge period, the corporate leverage covenant has increased to 65 percent, which allows for incremental liquidity of approximately $9.5 million. In addition, the facility pricing has increased by 15 basis points during this period.

Upon completion of a series of transactions underlying the new framework, the credit facility will be reset back to the original covenant levels, except for the fixed-charge coverage ratio, which is permanently reduced from 1.75 times to 1.6 times. The modification will allow us to continue executing on our portfolio management strategy through the remainder of this year, into 2021, and beyond.

Given the continued uncertainty in the marketplace, I'd like to provide an update on rental revenue collections. Rent collections remained relatively consistent through the second and third quarter. Our SHOP portfolio continued to see resident collections in line with pre-pandemic norms of approximately 99 percent. On the medical office side, collections in the third quarter were 93 percent, which remained consistent with the second quarter. Lastly, collections in our triple-net portfolio were approximately 84 percent.

And with that, I'll turn it over to Adlai.

Adlai Chester — Chief Investment Officer, Invesque Inc.

Thank you, Scott. As of June 30th, our stabilized triple-net portfolio remained consistent in terms of coverage and occupancy with previous quarters. On a trailing 12-month basis, our portfolio-wide EBITDAR and EBITDARM coverage ratios were 1.2 times and 1.5 times, respectively. As of June 30th, our trailing 12-month occupancy for our stabilized triple-net assets and stabilized SHOP assets stood at 83 percent and 81 percent, respectively, while our medical office portfolio stabilized occupancy stood at 86 percent.

As we highlighted at the beginning of 2020, portfolio management is our key focus area. One of those initiatives has been to streamline our relationship with Symphony to position both Invesque and Symphony for long-term success. Symphony has been one of our long-standing operating partners, representing over 70 percent of NOI at the time of our IPO back in 2016.

Since our IPO, we have consistently discussed our desire to reduce the overall percentage of NOI in our portfolio tied to Symphony. As we have grown over the last four years, we have successfully reduced our Symphony concentration to less than 25 percent of our pro forma NOI as of today.

We announced this morning that we have signed a nonbinding MOU with Symphony that puts into place a new framework for our relationship going forward. Under the terms of the MOU, we have agreed to sell a pool of assets to Symphony and to transition a group of assets to a new regional operator that has significant experience operating in the markets where many of these assets are located.

Collectively, these asset sales and transition assets represent approximately 50 percent of our assets currently operated by Symphony. For the remaining half of the assets, we will enter into an amended and restated 15-year absolute triple-net master lease with enhanced lease coverage with Symphony. Assuming this series of transactions are completed as currently contemplated, Symphony will represent less than 15 percent of our pro forma NOI. This series of transactions will allow Symphony the flexibility to succeed in the near term, during the pandemic, as well as over the long run.

The transactions will also provide us liquidity, diversification, and better portfolio-level coverage. We expect the Symphony-related transaction to be completed during the first quarter of 2021, and we will report back with more specific details at that time.

As we touched on last quarter, we continue to work closely with Bridgemoor, given the impact the pandemic has had on their operations. The Bridgemoor properties are transitional care assets that mostly serve patients immediately after a hospital stay. The pandemic has significantly disrupted hospital operations nationwide and especially in Texas. As a result, Bridgemoor's operations have suffered far more than our others in our portfolio. During the third quarter, we did not recognize revenue from Bridgemoor and have reserved against the full amount of our working capital loan to Bridgemoor.

We continue to explore all options, including a potential sale of the assets or an operator transition, to ensure we maximize the value of our assets in this portfolio. The combination of the operational performance at certain assets, the deal framework that we have outlined with Symphony, and the macro environment led to valuation adjustments in both investment properties and loan balances. We are confident that the deal we have framed with Symphony will lead to the best outcome for our stakeholders, given the challenging environment, with key benefits including diversification and enhanced near-term liquidity.

Turning to our other portfolio management initiatives, we have executed on numerous asset transitions and sales that continue to enhance the portfolio for future success. During the third quarter, we completed the transition of property management and leasing services for our MOB portfolio to JLL. JLL is a world-class partner that we feel fortunate to have as part of the Invesque family going forward. We are confident that their global reach, scale, and cutting-edge technology will provide many ancillary benefits to us, not only the MOBs, but across our entire portfolio going forward.

Quickly, on our acquisition and development pipeline, remains very light as the pandemic continues to significantly impact the market for seniors housing and skilled nursing. We continue to look for opportunistic ways to deploy capital with our preferred partners in select markets where they desire to grow.

With that, I would like to thank everyone for joining this call.

Operator, please open the line for questions.

Q&A

Operator

At this time, I'd like to advise everyone, in order to ask a question, please press *, followed by the number 1 on your telephone keypad.

And we'll pause for a moment while we compile the Q&A roster.

Our first question comes from the line of Fred Blondeau with iA Securities. Go ahead, please. Your line is open.

Fred Blondeau — iA Securities

Thank you, and good morning. Maybe first on Symcare, could you give us a bit of a rationale behind the timing of the transaction? And also maybe a bit more colour on the terms?

Scott White

Well, morning, friend. Hey. It's Scott. Thanks for joining and thanks for your questions. So I guess two questions in there; one, the rationale behind working with Symphony to come up with a new construct, and then, two, greater clarity around the terms.

But with regards to the rationale, as I stated in my comments, we've been partners with Symphony since pre-IPO. They've been one of our—they were our first operating partner and to this day, one of our largest operating partners.

The skilled nursing portfolio overall across the country, not just within our portfolio, has continued to struggle through this time of the pandemic. We have been in constant contact with Symphony to try to work out a partnership, so that we can make sure they're well positioned to make it through the pandemic, and so that we protect the asset value in those particular assets. We've gone back and forth in terms of different ways to structure that and believe that, ultimately, the best possible outcome is for us to reduce some of our exposure to Symphony. And that's sort of one of the priorities for us as we think about preservation of value within the portfolio.

We also wanted to give Symphony the opportunity for long-term success. We realize that we are at what I believe is a trough in the industry, and to not be there as a supportive partner to help Symphony at a time that they need the help the most is not how we operate, and it's not how we view the world. So the construct is such that we will set them up for long-term success. We'll create a new structure that we believe is fair and reasonable and long-term sustainable.

We'll reduce the overall exposure, one, to skilled in our portfolio because we're selling off some assets; and two, to Symphony, so that we reduce or mitigate concentration risk. As Adlai said, when we started this company five-ish years ago, over 70 percent of our NOI was from Symphony. And I said from the beginning that it was important to our investors that we reduce the risk exposure associated with any particular operator—not necessarily just Symphony, but any operator. And over the course of five years, we've reduced it from 70 percent to what we believe will be below 15 percent.

With regards to greater specificity around the transaction itself, I'm not prepared to offer that today. We're still documenting and finalizing. As we made clear in both our earnings release and in our comments this morning, right now, we're at the stage of a nonbinding memorandum of understanding.

Fred Blondeau

Mm-hmm.

Scott White

I feel confident that the structure and the terms that we've agreed to will be finalized, and that in the next, call it, 60 days or so, we'll put out greater specificity around exactly what the transaction looks like, but I think it would be premature at this stage.

Fred Blondeau

Mm-hmm. No. That's totally fair. But is it fair to say that these discussions were related to the current environment? Or you began—like the discussions began pre-COVID? Or even last year?

Scott White

Well, when you talk about discussions, we have ongoing discussions with all of our operators on a regular basis. We have a dedicated portfolio management team that talks to our operators on an at least quarterly, and a lot of cases, monthly basis. When you think about our portfolio and how much exposure we have had over the years to Symphony, you could be certain that we had greater level of conversations, more frequent conversations, greater level of monitoring as it related to Symphony.

And as I said, look, they've been with us since pre-IPO. There's a close personal—

Fred Blondeau

Mm-hmm.

Scott White

—relationship there. We have a great deal of respect for Symphony. So those conversations have been ongoing, I'd say for five years, quite frankly, and really, we needed to work hard to find a solution in light of the pandemic. There is no doubt that the pandemic has really put a burden on the skilled nursing industry.

This is not unique to Symphony; across the industry, as I noted in my comments. We're at historically low occupancy levels and Symphony wasn't immune. They fought hard and did the best they could to keep everyone safe in the buildings and to keep those beds as full as possible. But the reality of the environment is it's just not sustainable, and that's why we wanted to work with them to find something that is.

Fred Blondeau

And so what should we expect in terms of the balance of your exposure to Symphony? I mean, how does it compare to the assets being sold?

Scott White

So post—

Fred Blondeau

I mean, in terms of the expected performance, given the context?

Scott White

I'm not sure I understand the question.

Fred Blondeau

Yeah. What should we expect in terms of performance of the remaining—your remaining exposure to Symphony—

Scott White

Got it. Got it. So—

Fred Blondeau

—after—okay. Got it.

Scott White

Yeah. No, that's a great question, and the answer is we expect much better performance longer term. That's why we went into this is that we wanted to set this right for long-term success. We will be entering in or modifying the existing lease agreement such that we will position it so that we expect them to be able to meet the obligations of the lease long term and that we don't expect to be revisiting this quarter after quarter.

Fred Blondeau

Mm-hmm. And is it fair to say that the remaining exposure would be a long-term … like more a long-term holding for you guys? Or—

Scott White

Yeah.

Fred Blondeau

—what would be the ultimate goal there, I guess?

Scott White

So yes, we are going through this exercise to come up with a new construct for long-term success. If we didn't want to be a long-term partner with Symphony, then we'd find a solution that worked for both of us where we'd exit the portfolio entirely, but that is not our goal. Nor is it our goal—and I'll be very clear about this—to come up with a construct that fixes things for the next quarter to year. This is an expectation that we will be partners with them in a mutually beneficial manner for the long term.

Fred Blondeau

Mm-hmm. Okay. So just—I'm abusing your time here—but just to be clear—

Scott White

No, no, no. Take your time.

Fred Blondeau

—we won't hear about Symphony in 2021, more or less. Is that what you're saying?

Scott Higgs

Well, I think you're going to—you'll see announcements of—

Fred Blondeau

We're not—it should be fixed for the long term?

Scott White

That is my goal. So you'll hear announcements about us finalizing this transaction, which will certainly bleed into 2021.

Fred Blondeau

Mm-hmm.

Scott White

But to be clear, by the time we get to 2021, we look into 2022, I don't expect—

Fred Blondeau

Mm-hmm.

Scott White

—this to be a primary topic. If nothing else, Fred, there'll be—

Fred Blondeau

Mm-hmm.

Scott White

—reduced exposure. So what's part of the reason we talk a lot about Symphony? We talk a lot about Symphony because at one point they were 70 percent. And then at one point they were 50 percent. And then, up until recently, they were more than a quarter of our portfolio. So I think it's important—

Fred Blondeau

Mm-hmm.

Scott White

—for our investors to understand with such a large concentration risk, look, we talk a lot about Commonwealth. Why?

Fred Blondeau

Mm-hmm.

Scott White

Because when you look at Commonwealth and you look at Symphony, combined they're 50 percent. As you mitigate or reduce the percentage exposure they are to the portfolio, I think it'll be less relevant and investors will be less focused on what is going on there in particular.

Fred Blondeau

Mm-hmm.

Scott White

I also want to clarify one other thing that, Fred, you're asking in terms of long term. We're entering into this with a long-term hope and expectation for success, but we also are constantly opportunistic. And to the extent that it—

Fred Blondeau

Mm-hmm.

Scott White

—makes sense for us to do something different, we're always open to exploring opportunities.

Fred Blondeau

Mm-hmm. Well, that's great. Thank you. That's it for me.

Scott White

Well, great. Thanks so much for the questions, Fred. Take care. Have a good one.

Fred Blondeau

Yeah. You, too.

Operator

And again, as a reminder if you'd like to ask a question, please press *, followed by 1 on your telephone keypad.

Our next question comes from the line of Chris Couprie with CIBC. Go ahead, please. Your line is open.

Chris Couprie — CIBC

Good morning, gents. Just wanted to maybe follow up a little bit on what Fred was asking regarding the MOU. Just wanted to get a clarification for my understanding. So right now Symcare is, call it, less than 25 percent of pro forma NOI and post the transaction it's going to be under 15 percent of pro forma NOI. I guess like my question is is the NOI changing in that calculation? Are we looking at two different pro forma NOIs? Or is it, let's just say, you're doing $100 million of NOI, you're expecting to continue to do $100 million of NOI, it's just that Symphony will do 15 as opposed to 25 percent?

Scott White

That's a great question. And for clarity, both the numerator and the denominator in your NOI calculation will have to change because we said we're selling off some of the assets. So by definition, we're selling off some of the NOI.

Chris Couprie

Okay. Got it. And then just in terms of what the balance sheet impact might look like post the transaction, any colour there?

Scott White

So I'd say a couple things. One, obviously, there'll be a reduction in overall asset value because we're selling off some assets. Secondly, we will have—we expect to have cash proceeds from the sale of those assets that is right now our intention to delever our balance sheet with. So without getting into specifics because I do think that's a bit premature, if you were to project forward on a pro forma balance sheet, you'll see a reduction in asset value, as well as a deleveraging event.

Chris Couprie

Okay. In terms of the properties that may be assumed by another operator, would they be on the existing terms or would you have—that you currently have with Symphony—or would they be under new arrangements?

Scott White

It would be a new lease that we'd enter into with a new operator.

Chris Couprie

Okay. And then a question regarding Commonwealth, a couple things. I guess, the resident revenue was up quite nicely sequentially. I may have missed it in your opening remarks, but did occupancy improve sequentially there? Or is there something else that drove that revenue increase?

Scott White

So the revenue increase was driven by two—well, I'd say the NOI increase was driven by two things: one, a clear focus on expense control; and two, they have been able to push rates. They've been able to—they reconstituted their rate structure at the beginning of this year pre-pandemic and they've been able to hold that rate. So unlike some of the competitors in the industry that have had to cut rates to fill beds, Commonwealth has not.

There has been a minor decrease in occupancy. If I'm not mistaken, I believe it was 10 basis points quarter over quarter. But basically, occupancy has been flat. I will tell you that it is going to be challenging to maintain that occupancy. As I project out into Q4, I do expect to see a continued decline in occupancy. But so far quarter over quarter, the occupancy dip has been fairly small, 10 basis points. And most of the NOI improvement, 370 basis points, has come as a combination of both top-line revenue growth associated with rate, as well as a very careful managing of expenses.

Chris Couprie

Okay. That's great. And then with respect to the COVID-19 relief that Commonwealth received in the quarter, is there an expectation that there's going to be more of that in the future?

Scott White

So there is an expectation of some continuing support from the government. Commonwealth and others have applied for the next phase of government support and we do expect some; not as much as we've seen historically. So to be clear, the numbers that I just gave you, Chris, the 370 basis points in NOI improvement, that does not include any government funding or support.

Chris Couprie

Yeah. No, I get that. So like that, call it, $3 million or so, $2.5 million of support that you got in the quarter—

Scott White

Mm-hmm.

Chris Couprie

—should we expect a similar magnitude or similar amount Q4?

Scott White

Yeah. No. At this point in time, I wouldn't expect a similar magnitude. I do expect some more, but not of that magnitude. But again, I think it's an ongoing discussion here in the United States. What I can project right now, Q4 will be smaller. But as you're aware, with the change in the administration and a continued talk about ongoing relief, I wouldn't count anything out. But to be clear, I'm not expecting another large reimbursement.

Chris Couprie

Yeah. Projecting anything beyond the next couple months is a challenge right now for this industry, no doubt. And then my last question is regarding the mezz loan portfolio. You highlighted the working capital loan to Bridgemoor being written down, but looks like there was—there must have been some other loans where you took some provisions this Q. Just any colour there, please? Thanks.

Scott White

Mr. Higgs, you want to take that one?

Scott Higgs

Sure. Yeah. Chris, yeah, I mean, look, so Bridgemoor is certainly a component of that charge. And I'd say just generally as we look at the landscape and the risk assessment associated with certain cash flow supporting the repayment and so on, just with the uncertainty in the current environment, I think that's driving our risk assessment and, ultimately, impacting the charge and the valuation reduction kind of across multiples of that portfolio.

Chris Couprie

Okay. And then maybe just one more for me just on the fair value adjustment. I think you highlighted a bit of cap rate expansion and a bit of impact from the MOU. Any way to unpack that at all for us?

Scott Higgs

It's similar. I mean, it certainly—

Scott White

Well, I think—yeah. Sure. Sorry. Certainly, the impact of the transaction with Symphony is impacting that number. But again, it's risk assessment and cap rate expansion across particularly in the skilled nursing bucket. But also just generally, it's the consistent process we do every quarter and looking at cash flow projections over the next 12 months, for example, and assessing those risks and the cash flows and also addressing the cap rate that way. So all of that kind of is rolled into what you see going through there this quarter.

Chris Couprie

So just with the fair value, what part of the fair value adjustment reflect the expected—the expectation of the new lease terms essentially?

Scott White

Yeah. Okay. I think that's—there's no doubt that's part of it, but I think what Higgs was trying to make clear is it is more holistic. So that write-down isn't exclusive or specific to what we're doing with Symphony. And we take a look at our entire portfolio on a quarterly basis and assess the fair value. In this market, as you just said, it's hard to project forward two or three months. I think I would comfortably say we've taken a fairly conservative approach to say, look, it is hard to project what the forward cash flows are going to look like. It is hard to project what valuations are going to be like.

I do firmly believe we are at a trough. I can't tell you whether that trough is three weeks, three months, or three years, but we are at a trough. So we've taken a fairly—and here's where I want to be careful, but conservative aggressive—but a fairly fair—I guess that's probably the best approach—to say, look, right now with the uncertainty as you look out on the horizon with—there aren't a lot of deals that are happening. So you can't say, well, here are the cap rates on the last three or four deals and that's what we would apply.

We put it all into the mixer. We have appraisals done on a regular basis. We try to see if there are trades in the industry what are they trading at and apply a cap rate. And then we look asset by asset, so this isn't just Symphony. This isn't just Symphony, or Bridgemoor, or any of the other things you talked about. Literally asset by asset as a management team we go through and we say here are cash flows for the last 12 months. Here's what's going on in the facility right now. Here's what the occupancies are. Here's what we believe on a go-forward basis. And what is the appropriate cap to put to that? There's certainly some art and some science, but I'm very confident and comfortable that we're taking an appropriate write-down associated with where we are in the cycle.

Chris Couprie

Perfect. Thanks. I'll turn it back.

Scott White

Thanks so much. Take care.

Operator

Our next question comes from the line of Mark Rothschild with Canaccord. Go ahead, please. Your line is open.

Mark Rothschild — Canaccord

Thanks, and good morning. Maybe just—

Scott White

Good morning.

Mark Rothschild

—before we move away completely from Symphony, if you can give maybe even just a range? I know you can't be that specific now on the equity value of the assets that'll be sold. And then in regards to the entire portfolio that they manage, if you want to break out which assets will be sold or not, what would the coverage ratios be like currently?

Scott White

Yeah. Mark, I certainly appreciate the nature of those questions, but I'd rather not discuss that yet until we finalize all the terms of them.

Mark Rothschild

Can you disclose what the coverage ratios are at those assets?

Scott White

Again, I will do more of that once we finalize it, but I just—I think it's a little bit premature. Just so I'm really clear, and I tried to be clear on both the earnings release and on my comments before, we've entered into a nonbinding memorandum of understanding. I feel very confident, given our relationship with Symphony and how long we've known them, that this'll come to fruition. But for me to start projecting out the terms that we've come to and then for me to come back and tell you in a few weeks that I was just kidding, I think would be inappropriate.

I think it's best for me to say now that we have a wonderful relationship with them, a great working partnership. We believe we reached an agreement that is mutually beneficial to both sides. And most importantly, it mitigates the overall risk and sets them up for long-term success.

Mark Rothschild

Okay. With any of your other operators in your portfolio, are there others that might also be having some notable financial distress now that you might have to rework the relationships?

Scott White

So right now, we are not in discussions with anyone else and it is my hope and expectation that that will remain the case. There's no doubt that we have exposures across the portfolio that are challenged, right? When occupancies are at all-time historical lows—I don't even mean in this cycle; I mean all-time historical lows—the industry itself is facing headwinds. The good news, I think, is that we’ve—it appears we’ve bottomed out, although I want to be careful saying that because every headline I read today is about how COVID is spreading rampantly through the United States and you’re going to have more shutdowns.

By definition, with more shutdowns the industry is going to struggle more. I am very optimistic that the industry has figured out how to handle and contain this. A lot of the initial damage and carnage was as a result of being caught off guard. The industry itself was not prepared for this. Let’s be clear. Nobody saw this coming or was prepared. And a lot of the damage early on, sadly the deaths and the rapid spread was because people were unprepared.

So I believe that even if there is a major uptick, a second wave or third wave or whatever you want to call it, I think the industry is better prepared. So what does that translate into? I think we’ve bottomed out in terms of occupancy, but it’s hard to say.

Now working on my way back specifically to your question, Mark, so as not to avoid it, right now it is my expectation that all of our other relationships will continue as they currently are. We’re always monitoring our relationships and we’re always trying to set them up for success. There’s no other imminent announcements coming. We would disclose anything that was at the stage that we thought it was appropriate. And I am cautiously optimistic that we’re going to get through the next few months and things are going to turn.

Look, we heard earlier this week about the potential for a vaccine out of Pfizer. That certainly changes the dynamic. I’m cautious about it. I don’t want to suggest that if, in fact, that is approved and we’re able to distribute it fairly quickly and broadly, will that change everything? Yeah. It’s just a matter of timing.

What the industry looks like on the other side? To be determined. I think it's important to remember that this is a real estate play. It is a long-term investment. The industry is absolutely not going away. In fact, I think there's some credible arguments to believe that the industry will be strengthened by this in the long term. So that's sort of how we view the world.

Mark Rothschild

Okay. And specifically for the MOB portfolio, can you talk about the trends you're seeing in leasing and rental rates? And maybe what's the outlook in the near term for that portfolio?

Scott White

Yeah. So that portfolio has suffered less damage or less impact associated with COVID. There's been some; there's no doubt about it. But for the most part, that portfolio has not really been hampered as much by COVID. As I think you know, we brought in a new operator earlier this year; September was the key transition month. So we're now, call it, 30 to 60 days into the new operator taking over.

I think time will tell. I am very optimistic that we have a great operator in there. Look, we had a great operating partner in there before. We have a great deal of respect for our former operating partner. As we were trying to look for ways to enhance value in our portfolio, we saw an opportunity to bring in a global brand that has the infrastructure and has the institutional wherewithal to manage and maybe, maybe, hopefully someday grow the portfolio. That's why we made the change that we made, and I'm optimistic so far on the early returns and reviews that JLL is going to enhance NOI coming out of that portfolio.

I think it's hard specifically to answer your question, Mark, as it relates to the short term. I don't have an answer like what could we expect out of the MOB portfolio in Q4 or Q1. I'd say no major changes.

I do feel very confident—and I'll go on record as saying that, which I rarely do—yeah, 12 to 18 months from now we will see enhanced NOI coming out of that portfolio.

Mark Rothschild

Okay. And then just maybe lastly, you do have in the back of your financials the table showing the breakdown of cash flow and income by operating segment. If we look at that Q2 to Q3, would that be a good proxy for same-property changes? Or are there asset changes that would maybe impact those numbers?

Scott White

Higgs, you want to take that one?

Scott Higgs

Sure. Yeah. Mark, I think it's a relatively good proxy, yeah, and without getting into the specifics. But there are a couple of changes that would impact that, but on a relatively minor scale. So I think from a broad-brush perspective, I think that's a fair way to look at it.

Mark Rothschild

Okay. And I know I've asked this question before, but I'm still just struggling to understand why you don't disclose same-property NOI and by segment. Is there any way we can maybe get that in the future? It's kind of standard in the industry.

Scott Higgs

Yeah. So we did add some disclosure in the current MD&A to show SHOP same-store metrics, Mark, so. And certainly, we're continuing to look at expanding other metrics. So certainly, it's possible that in the future, we will. And the same—I'll also caveat by saying that those same-store metrics will continue to be enhanced as we have longer ownership periods of the owner-occupied properties as well.

Mark Rothschild

Okay. Thank you.

Scott White

Thanks so much, Mark.

Scott Higgs

Thank you.

Operator

And there are no further questions at this time. Ladies and gentlemen, we'd like to thank you for attending today's conference. This concludes today's conference call. You may now disconnect.