WELLTOWER INC.
Form 10-Q
October 30, 2018
UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q
(Mark One)

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2018
or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number: 1-8923
WELLTOWER INC.

(Exact name of registrant as specified in its charter)

Delaware	34-1096634
(State or other jurisdiction of Incorporation)	(IRS Employer Identification No.)
4500 Dorr Street, Toledo, Ohio	43615
(Address of principal executive offices)	(Zip Code)

(419) 247-2800
(Registrant’s telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No ¨
Indicate by check mark whether the registrant has submitted electronically, if any, every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	þ	Accelerated filer	¨	Non-accelerated filer (Do not check if a smaller reporting company)	¨	Smaller reporting company	¨	Emerging growth company	¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No þ
As of October 25, 2018, the registrant had 375,644,415 shares of common stock outstanding.

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
CONSOLIDATED BALANCE SHEETS
WELLTOWER INC. AND SUBSIDIARIES
(In thousands)

	September 30, 2018 (Unaudited)	December 31, 2017 (Note)
Assets:		
Real estate investments:		
Real property owned:		
Land and land improvements	$3,193,555	$2,734,467
Buildings and improvements	27,980,830	25,373,117
Acquired lease intangibles	1,562,650	1,502,471
Real property held for sale, net of accumulated depreciation	619,141	734,147
Construction in progress	135,343	237,746
Gross real property owned	33,491,519	30,581,948
Less accumulated depreciation and amortization	(5,394,274)	(4,838,370)
Net real property owned	28,097,245	25,743,578
Real estate loans receivable	409,196	495,871
Less allowance for losses on loans receivable	(68,372)	(68,372)
Net real estate loans receivable	340,824	427,499
Net real estate investments	28,438,069	26,171,077
Other assets:		
Investments in unconsolidated entities	423,192	445,585
Goodwill	68,321	68,321
Cash and cash equivalents	191,199	243,777
Restricted cash	90,086	65,526
Straight-line rent receivable	388,045	389,168
Receivables and other assets	650,207	560,991
Total other assets	1,811,050	1,773,368
Total assets	$30,249,119	$27,944,445
Liabilities and equity		
Liabilities:		
Borrowings under primary unsecured credit facility	$1,312,000	$719,000
Senior unsecured notes	9,655,022	8,331,722
Secured debt	2,465,661	2,608,976
Capital lease obligations	71,377	72,238
Accrued expenses and other liabilities	1,074,994	911,863
Total liabilities	14,579,054	12,643,799
Redeemable noncontrolling interests	400,864	375,194
Equity:		
Preferred stock	718,498	718,503
Common stock	376,353	372,449
Capital in excess of par value	17,889,514	17,662,681
Treasury stock	(68,753)	(64,559)
Cumulative net income	6,008,095	5,316,580
Cumulative dividends	(10,478,020)	(9,471,712)
Accumulated other comprehensive income (loss)	(138,491)	(111,465)

Other equity	489	670
Total Welltower Inc. stockholders' equity	14,307,685	14,423,147
Noncontrolling interests	961,516	502,305
Total equity	15,269,201	14,925,452
Total liabilities and equity	$30,249,119	$27,944,445

NOTE: The consolidated balance sheet at December 31, 2017 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)
WELLTOWER INC. AND SUBSIDIARIES
(In thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenues:				
Rental income	$342,887	$362,880	$1,019,857	$1,085,621
Resident fees and services	875,171	702,380	2,374,450	2,049,757
Interest income	14,622	20,187	42,732	61,836
Other income	3,699	6,036	22,217	15,169
Total revenues	1,236,379	1,091,483	3,459,256	3,212,383
Expenses:				
Interest expense	138,032	122,578	382,223	357,405
Property operating expenses	657,157	523,997	1,782,373	1,536,021
Depreciation and amortization	243,149	230,138	707,625	683,262
General and administrative	28,746	29,913	95,282	93,643
Loss (gain) on derivatives and financial instruments, net	8,991	324	(5,642)	2,284
Loss (gain) on extinguishment of debt, net	4,038	—	16,044	36,870
Impairment of assets	6,740	—	39,557	24,662
Other expenses	88,626	99,595	102,396	117,608
Total expenses	1,175,479	1,006,545	3,119,858	2,851,755
Income (loss) from continuing operations before income taxes and income from unconsolidated entities	60,900	84,938	339,398	360,628
Income tax (expense) benefit	(1,741)	(669)	(7,170)	5,535
Income (loss) from unconsolidated entities	344	3,408	(836)	(23,676)
Income (loss) from continuing operations	59,503	87,677	331,392	342,487
Gain (loss) on real estate dispositions, net	24,723	1,622	373,662	287,869
Net income	84,226	89,299	705,054	630,356
Less: Preferred stock dividends	11,676	11,676	35,028	37,734
Less: Preferred stock redemption charge	—	—	—	9,769
Less: Net income (loss) attributable to noncontrolling interests(1)	8,166	3,580	13,539	7,735
Net income (loss) attributable to common stockholders	$64,384	$74,043	$656,487	$575,118
Average number of common shares outstanding:				
Basic	373,023	369,089	372,052	366,096
Diluted	374,487	370,740	373,638	367,894
Earnings per share:				
Basic:				
Income (loss) from continuing operations	$0.16	$0.24	$0.89	$0.94
Net income (loss) attributable to common stockholders	$0.17	$0.20	$1.76	$1.57
Diluted:				
Income (loss) from continuing operations	$0.16	$0.24	$0.89	$0.93
Net income (loss) attributable to common stockholders	$0.17	$0.20	$1.76	$1.56
Dividends declared and paid per common share	$0.87	$0.87	$2.61	$2.61

(1) Includes amounts attributable to redeemable noncontrolling interests.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)
WELLTOWER INC. AND SUBSIDIARIES
(In thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income	$84,226	$89,299	$705,054	$630,356
Other comprehensive income (loss):				
Unrecognized gain (loss) on available-for-sale securities	—	(3,808)	—	(20,285)
Unrealized gains (losses) on cash flow hedges	—	2	—	2
Foreign currency translation gain (loss)	(3,093)	37,343	(36,890)	70,769
Total other comprehensive income (loss)	(3,093)	33,537	(36,890)	50,486
Total comprehensive income (loss)	81,133	122,836	668,164	680,842
Less: Total comprehensive income (loss) attributable to noncontrolling interests[1]	10,933	14,732	3,675	29,930
Total comprehensive income (loss) attributable to common stockholders	$70,200	$108,104	$664,489	$650,912

(1) Includes amounts attributable to redeemable noncontrolling interests.

CONSOLIDATED STATEMENTS OF EQUITY (UNAUDITED)
WELLTOWER INC. AND SUBSIDIARIES
(In thousands)

Nine Months Ended September 30, 2018

	Preferred Stock	Common Stock	Capital in Excess of Par Value	Treasury Stock	Cumulative Net Income	Cumulative Dividends	Accumulated Other Comprehensive Income (Loss)	Other Equity	Noncont Interests
Balances at beginning of period	$718,503	$372,449	$17,662,681	$(64,559)	$5,316,580	$(9,471,712)	$(111,465)	$670	$502,30
Comprehensive income:									
Net income (loss)					691,515				15,393
Other comprehensive income							(27,026)		(9,864
Total comprehensive income									
Net change in noncontrolling interests			(34,139)						453,682
Amounts related to stock incentive plans, net of forfeitures		172	23,127	(4,194)				(181)	
Proceeds from issuance of common stock		3,732	237,840						
Conversion of preferred stock	(5)		5						
Dividends paid:									
Common stock dividends						(971,280)			
Preferred stock dividends						(35,028)			
Balances at end of period	$718,498	$376,353	$17,889,514	$(68,753)	$6,008,095	$(10,478,020)	$(138,491)	$489	$961,51

Nine Months Ended September 30, 2017

	Preferred Stock	Common Stock	Capital in Excess of Par Value	Treasury Stock	Cumulative Net Income	Cumulative Dividends	Accumulated Other Comprehensive Income (Loss)	Other Equity	Noncont Interests
	$1,006,250	$363,071	$16,999,691	$(54,741)	$4,803,575	$(8,144,981)	$(169,531)	$3,059	$475,07

Balances at beginning of period									
Comprehensive income:									
Net income (loss)					622,621				9,907
Other comprehensive income							28,291		22,195
Total comprehensive income									
Net change in noncontrolling interests			9,784						7,558
Amounts related to stock incentive plans, net of forfeitures		337	17,151	(7,611)				(1,942)	
Proceeds from issuance of common stock		7,513	522,954						
Redemption of preferred stock	(287,500)		9,760		(9,769)				
Redemption of equity membership units		91	5,465	(11)					
Conversion of preferred stock	(247)								
Option compensation expense								10	
Dividends paid:									
Common stock dividends						(955,631)			
Preferred stock dividends						(37,734)			
Balances at end of period	$718,503	$371,012	$17,564,805	$(62,363)	$5,416,427	$(9,138,346)	$(141,240)	$1,127	$514,739

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CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
WELLTOWER INC. AND SUBSIDIARIES
(In thousands)

	Nine Months Ended September 30,	
	2018	2017
Operating activities:		
Net income	$705,054	$630,356
Adjustments to reconcile net income to net cash provided from (used in) operating activities:		
Depreciation and amortization	707,625	683,262
Other amortization expenses	12,110	12,095
Impairment of assets	39,557	24,662
Stock-based compensation expense	22,800	16,459
Loss (gain) on derivatives and financial instruments, net	(5,642)	2,284
Loss (gain) on extinguishment of debt, net	16,044	36,870
Loss (income) from unconsolidated entities	836	23,676
Rental income less than (in excess of) cash received	(7,830)	(64,865)
Amortization related to above (below) market leases, net	1,984	180
Loss (gain) on real estate dispositions, net	(373,662)	(287,869)
Distributions by unconsolidated entities	21	116
Increase (decrease) in accrued expenses and other liabilities	103,474	171,713
Decrease (increase) in receivables and other assets	(11,223)	(86,475)
Net cash provided from (used in) operating activities	1,211,148	1,162,464
Investing activities:		
Cash disbursed for acquisitions	(3,190,534)	(574,002)
Cash disbursed for capital improvements to existing properties	(173,635)	(159,142)
Cash disbursed for construction in progress	(88,146)	(198,068)
Capitalized interest	(6,357)	(10,033)
Investment in real estate loans receivable	(67,136)	(70,051)
Principal collected on real estate loans receivable	149,592	82,263
Other investments, net of payments	(49,572)	50,877
Contributions to unconsolidated entities	(42,697)	(73,802)
Distributions by unconsolidated entities	61,253	58,754
Proceeds from (payments on) derivatives	65,438	55,771
Proceeds from sales of real property	1,208,501	1,237,851
Net cash provided from (used in) investing activities	(2,133,293)	400,418
Financing activities:		
Net increase (decrease) under unsecured credit facilities	593,000	(225,000)
Proceeds from issuance of senior unsecured notes	2,825,898	7,500
Payments to extinguish senior unsecured notes	(1,450,000)	(5,000)
Net proceeds from the issuance of secured debt	44,606	190,459
Payments on secured debt	(238,867)	(1,050,879)
Net proceeds from the issuance of common stock	242,411	530,992
Redemption of preferred stock	—	(287,500)
Payments for deferred financing costs and prepayment penalties	(29,701)	(54,027)
Contributions by noncontrolling interests[1]	11,238	47,209
Distributions to noncontrolling interests[1]	(86,462)	(51,824)
Cash distributions to stockholders	(1,006,274)	(992,621)

Other financing activities	(6,290)	(8,416)
Net cash provided from (used in) financing activities	899,559	(1,899,107)
Effect of foreign currency translation on cash, cash equivalents and restricted cash	(5,432)	24,316
Increase (decrease) in cash, cash equivalents and restricted cash	(28,018)	(311,909)
Cash, cash equivalents and restricted cash at beginning of period	309,303	607,220
Cash, cash equivalents and restricted cash at end of period	$281,285	$295,311
Supplemental cash flow information:		
Interest paid	$312,452	$312,896
Income taxes paid (received), net	3,195	5,606

(1) Includes amounts attributable to redeemable noncontrolling interests.

WELLTOWER INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. Business

Welltower Inc., an S&P 500 company headquartered in Toledo, Ohio, is driving the transformation of health care infrastructure. The company invests with leading seniors housing operators, post-acute providers and health systems to fund the real estate and infrastructure needed to scale innovative care delivery models and improve people's wellness and overall health care experience. Welltower™, a real estate investment trust ("REIT"), owns interests in properties concentrated in major, high-growth markets in the United States, Canada and the United Kingdom, consisting of seniors housing and post-acute communities and outpatient medical properties.

2. Accounting Policies and Related Matters

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") for interim financial information and with instructions to Quarterly Report on Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (such as normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the nine months ended September 30, 2018 are not necessarily an indication of the results that may be expected for the year ending December 31, 2018. For further information, refer to the financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2017.

New Accounting Standards

We adopted the following accounting standards, each of which did not have a material impact on our consolidated financial statements:

- In 2014, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers (ASC 606)," which is a comprehensive new revenue recognition model that requires revenue to be recognized in a manner to depict the transfer of goods or services to a customer at an amount that reflects the consideration expected to be received in exchange for those goods or services. We adopted ASC 606 on January 1, 2018 using the modified retrospective method of adoption. This guidance did not have a significant impact on our consolidated financial statements.

We have evaluated our various revenue streams to identify whether they would be subject to the provisions of ASC 606 and any differences in timing, measurement or presentation of revenue recognition. A significant source of our revenue is generated through leasing arrangements, which are specifically excluded from ASC 606. Management contracts are present in our seniors housing operating and outpatient medical segments and represent agreements to provide asset and property management, leasing, marketing and other services. Under ASC 606, the pattern and timing of recognition of income from these contracts is consistent with the prior accounting model.

- In 2017, the FASB issued ASU No. 2017-05, "Other Income – Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets." The standard clarifies that a financial asset is within the scope of Subtopic 610-20 if it meets the definition of an in substance nonfinancial asset. The standard also defines the term "in substance nonfinancial asset" and clarifies that an entity should identify each distinct nonfinancial asset or in substance nonfinancial asset promised to a counterparty and derecognize each asset when a counterparty obtains control over it. We adopted Subtopic 610-20 using a modified retrospective approach on January 1, 2018 and it did not have a material impact on our consolidated financial statements.
- In 2016, the FASB issued ASU No. 2016-01, "Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities," which requires entities to measure their investments at fair value and recognize any changes in fair value in net income unless the investments qualify for the new practicability exception. The practicability exception is available for equity investments that do not have readily determinable fair values. This standard requires us to recognize gains and losses from changes in the fair value of our available-for-sale equity securities through the consolidated statement of comprehensive income rather than through accumulated other

comprehensive income. During the nine months ended September 30, 2018, we recognized a gain of $5,642,000 in loss (gain) on derivatives and financial instruments, net on the Consolidated Statement of Comprehensive Income. There was no adjustment to accumulated other comprehensive income upon adoption at January 1, 2018 as accumulated losses were recognized as other-than-temporary impairment during the year ended December 31, 2017.

WELLTOWER INC.
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- As of December 31, 2017, we adopted ASU No. 2016-18, “Restricted Cash,” and ASU No. 2016-15, “Classification of Certain Cash Receipts and Cash Payments.” ASU No. 2016-18 requires an entity to reconcile and explain the period over period change in total cash, cash equivalents and restricted cash within its consolidated statement of cash flows and ASU 2016-15 provides guidance clarifying how certain cash receipts and cash payments should be classified. We adopted these accounting standards retrospectively and, accordingly, certain line items in the consolidated statement of cash flows have been reclassified to conform to the current presentation. The following table summarizes the change in cash flows as reported and as previously reported prior to the adoption of these standards for the nine months ended September 30, 2017 (in thousands):

	As Reported	As Previously Reported
Cash disbursed for acquisitions	$(574,002)	$(575,694)
Decrease (increase) in restricted cash	—	130,470
Net cash provided from (used in) investing activities	400,418	529,196
Increase (decrease) in balance[1]	(311,909)	(183,131)
Balance at beginning of period[1]	607,220	419,378
Balance at end of period[1]	295,311	236,247

(1) Amounts in As Reported column include cash and cash equivalents and restricted cash as required. Amounts in the As Previously Reported column reflect only cash and cash equivalents.

- In August 2017, the FASB issued ASU 2017-12, “Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities,” which expands and refines hedge accounting for both nonfinancial and financial risk components and aligns the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. It also includes certain targeted improvements to simplify the application of current guidance related to hedge accounting. The early adoption of this standard on April 1, 2018, did not result in a cumulative effect adjustment and all applicable changes for the company were prospectively made. Please refer to Note 11 of the consolidated financial statements for additional detail on this adoption.

The following ASUs have been issued but not yet adopted:

- In 2016, the FASB issued ASU No. 2016-02, “Leases (Topic 842),” which requires lessees to recognize assets and liabilities on their consolidated balance sheet related to the rights and obligations created by most leases, while continuing to recognize expenses on their consolidated statements of comprehensive income over the lease term. It will also require disclosures designed to give financial statement users information regarding amount, timing, and uncertainty of cash flows arising from leases. The FASB issued ASU 2018-11, "Leases (Topic 842) Targeted Improvements" in July 2018, which provides lessors with a practical expedient, by class of underlying assets, to not separate non-lease components from the related lease components, and, instead, to account for those components as a single lease component, if certain criteria are met. ASU 2016-02 is effective for us beginning January 1, 2019, with early adoption permitted. Entities are required to use a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the consolidated financial statements. ASU 2018-11 also provides a practical expedient that allows companies to use an optional transition method. Under the optional transition method, a cumulative adjustment to retained earnings during the period of adoption is recorded and prior periods would not require restatement. We are currently evaluating the impact of this guidance on our consolidated financial statements from both the lessee and lessor perspective. We believe that adoption will likely have a material impact to our consolidated financial statements for the recognition of certain operating leases as right-of-use assets and lease liabilities and related amortization. We expect to utilize the practical expedients in ASU 2018-11 as part of our adoption of this guidance.
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In 2016, the FASB issued ASU No. 2016-13, “Measurement of Credit Losses on Financial Instruments.” This standard requires a new forward-looking “expected loss” model to be used for receivables, held-to-maturity debt, loans, and other instruments. ASU 2016-13 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2019, and early adoption is permitted for fiscal years beginning after December 15, 2018. We are currently evaluating the impact that the standard will have on our consolidated financial statements.

3. Real Property Acquisitions and Development

The total purchase price for all properties acquired has been allocated to the tangible and identifiable intangible assets, liabilities and noncontrolling interests based upon their relative fair values in accordance with our accounting policies. The results of operations for these acquisitions have been included in our consolidated results of operations since the date of acquisition and are

WELLTOWER INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

a component of the appropriate segments. Transaction costs primarily represent costs incurred with acquisitions, including due diligence costs, fees for legal and valuation services and termination of pre-existing relationships computed based on the fair value of the assets acquired, lease termination fees and other acquisition-related costs. Transaction costs related to asset acquisitions are capitalized as a component of purchase price and all other non-capitalizable costs are reflected in “Other expenses” on our Consolidated Statements of Comprehensive Income. Certain of our subsidiaries’ functional currencies are the local currencies of their respective countries.

Acquisition of Quality Care Properties

On July 26, 2018, we completed the acquisition of Quality Care Properties Inc. ("QCP"), with QCP shareholders receiving $20.75 of cash for each share of QCP common stock and all existing QCP debt was repaid upon closing. Prior to the acquisition, ProMedica Health System ("ProMedica") completed the acquisition of HCR ManorCare. Immediately following the acquisition of QCP, we formed an 80/20 joint venture with ProMedica to own the real estate associated with the 218 seniors housing properties leased to ProMedica under a lease agreement with the following key terms: (i) 15-year absolute triple-net master lease with three five-year renewal options; (ii) initial annual cash rent of $179 million with a year one escalator of 1.375% and 2.75% annual escalators thereafter; and (iii) full corporate guarantee of ProMedica. Additionally, we acquired 59 seniors housing properties classified as held for sale and leased to ProMedica under a non-yielding lease, 12 seniors housing properties and one surgery center classified as held for sale and leased to operators under existing triple-net leases, 14 seniors housing properties leased to operators under existing triple-net leases and one multi-tenant medical office building leased to various tenants.

We drew on a $1.0 billion term loan facility to fund a portion of the acquisition cash consideration and other related expenses. The term loan facility matures two years from the closing. In addition to the term loan facility draw, we drew on our unsecured credit facility described in Note 9, in order to fund the acquisition. The aggregate consideration to acquire the QCP shares and repay outstanding QCP debt was approximately $3.5 billion.

We concluded that the QCP acquisition met the definition of an asset acquisition under ASU No. 2017-01, "Clarifying the Definition of a Business". The following table presents the purchase price calculation and the allocation to assets acquired and liabilities assumed based upon their relative fair value:

(In thousands)	
Land and land improvements	$417,983
Buildings and improvements	2,249,803
Acquired lease intangibles	15,512
Real property held for sale	418,297
Cash and cash equivalents	381,913
Restricted cash	4,981
Receivables and other assets	1,322
Total assets acquired	3,489,811
Accrued expenses and other liabilities	(13,199)
Total liabilities assumed	(13,199)
Noncontrolling interests	(512,741)
Net assets acquired	$2,963,871

Net assets acquired in the QCP acquisition detailed above are included in the respective segment tables below.

WELLTOWER INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Triple-net Activity

(In thousands)	Nine Months Ended September 30, 2018	September 30, 2017
Land and land improvements	$413,588	$ 31,948
Buildings and improvements	2,239,422	206,910
Acquired lease intangibles	12,383	—
Real property held for sale	396,265	—
Receivables and other assets	1,322	—
Total assets acquired[1]	3,062,980	238,858
Accrued expenses and other liabilities	(13,199)	(21,236)
Total liabilities assumed	(13,199)	(21,236)
Noncontrolling interests	(512,741)	(7,275)
Non-cash acquisition related activity[2]	—	(54,901)
Cash disbursed for acquisitions	2,537,040	155,446
Construction in progress additions	49,619	106,186
Less: Capitalized interest	(1,932)	(3,886)
Foreign currency translation	180	(656)
Cash disbursed for construction in progress	47,867	101,644
Capital improvements to existing properties	6,766	17,873
Total cash invested in real property, net of cash acquired	$2,591,673	$ 274,963

[1] Excludes $386,894,000 of unrestricted and restricted cash acquired during the nine months ended September 30, 2018.
[2] For the nine months ended September 30, 2017, $54,901,000 is related to the acquisition of assets previously financed as a real estate loan receivable.

Seniors Housing Operating Activity

(In thousands)	Nine Months Ended September 30, 2018	September 30, 2017
Land and land improvements	$47,865	$ 31,006
Building and improvements	535,436	384,522
Acquired lease intangibles	68,084	48,197
Receivables and other assets	1,255	3,164
Total assets acquired[1]	652,640	466,889
Secured debt	(89,973)	—
Accrued expenses and other liabilities	(14,686)	(43,364)
Total liabilities assumed	(104,659)	(43,364)
Noncontrolling interests	(9,818)	(4,701)
Non-cash acquisition related activity[2]	—	(59,065)
Cash disbursed for acquisitions	538,163	359,759
Construction in progress additions	28,222	65,282
Less: Capitalized interest	(2,608)	(5,996)
Foreign currency translation	2,151	(6,218)
Cash disbursed for construction in progress	27,765	53,068
Capital improvements to existing properties	127,274	110,372
Total cash invested in real property, net of cash acquired	$693,202	$ 523,199

(1) Excludes $2,442,000 and $6,273,000 of unrestricted and restricted cash acquired during the nine months ended September 30, 2018 and 2017, respectively.
(2) Includes $6,349,000 related to the acquisition of assets previously financed as real estate loans receivable and $51,097,000 previously financed as an investment in an unconsolidated entity during the nine months ended September 30, 2017.

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Outpatient Medical Activity

(In thousands)	Nine Months Ended September 30, 2018	September 30, 2017
Land and land improvements	$18,496	$ 25,060
Buildings and improvements	79,205	62,336
Acquired lease intangibles	11,271	8,397
Real property held for sale	22,032	—
Receivables and other assets	6	3
Total assets acquired[1]	131,010	95,796
Secured debt	(14,769)	(25,709)
Accrued expenses and other liabilities	(910)	(2,210)
Total liabilities assumed	(15,679)	(27,919)
Noncontrolling interests	—	(9,080)
Cash disbursed for acquisitions	115,331	58,797
Construction in progress additions	16,733	33,495
Less: Capitalized interest	(1,817)	(1,847)
Accruals[2]	(2,402)	11,708
Cash disbursed for construction in progress	12,514	43,356
Capital improvements to existing properties	39,595	30,897
Total cash invested in real property	$167,440	$ 133,050

[1] Excludes $2,244,000 and $0 of unrestricted and restricted cash acquired during the nine months ended September 30, 2018 and 2017, respectively.
[2] Represents non-cash accruals for amounts to be paid in future periods for properties that converted, off-set by amounts paid in the current period.

Construction Activity
The following is a summary of the construction projects that were placed into service and began generating revenues during the periods presented (in thousands):

	Nine Months Ended September 30, 2018	September 30, 2017
Development projects:		
Triple-net	$90,055	$ 283,472
Seniors housing operating	86,931	3,634
Outpatient medical	11,358	63,036
Total development projects	188,344	350,142
Expansion projects	8,879	10,336
Total construction in progress conversions	$197,223	$ 360,478

4. Real Estate Intangibles
The following is a summary of our real estate intangibles, excluding those classified as held for sale, as of the dates indicated (dollars in thousands):

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	September 30, 2018	December 31, 2017
Assets:		
In place lease intangibles	$ 1,398,850	$ 1,352,139
Above market tenant leases	59,011	58,443
Below market ground leases	65,022	58,784
Lease commissions	39,767	33,105
Gross historical cost	1,562,650	1,502,471
Accumulated amortization	(1,190,035)	(1,125,437)
Net book value	$ 372,615	$ 377,034
Weighted-average amortization period in years	16.0	15.1
Liabilities:		
Below market tenant leases	$ 71,566	$ 60,430
Above market ground leases	8,540	8,540
Gross historical cost	80,106	68,970
Accumulated amortization	(42,834)	(39,629)
Net book value	$ 37,272	$ 29,341
Weighted-average amortization period in years	16.1	20.1

The following is a summary of real estate intangible amortization for the periods presented (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Rental income related to above/below market tenant leases, net	$ (294)	$ 173	$ (978)	$ 745
Property operating expenses related to above/below market ground leases, net	(327)	(306)	(1,006)	(925)
Depreciation and amortization related to in place lease intangibles and lease commissions	(31,455)	(34,270)	(97,479)	(109,011)

The future estimated aggregate amortization of intangible assets and liabilities is as follows for the periods presented (in thousands):

	Assets	Liabilities
2018	$ 32,456	$ 1,433
2019	87,011	5,437
2020	57,221	4,938
2021	24,300	4,444
2022	19,325	3,971
Thereafter	152,302	17,049
Total	$ 372,615	$ 37,272

5. Dispositions and Assets Held for Sale

We periodically sell properties for various reasons, including favorable market conditions, the exercise of tenant purchase options or reduction of concentrations (e.g., property type, relationship or geography). At September 30, 2018, 60 triple-net, 16 seniors housing operating and three outpatient medical properties with an aggregate real estate balance of $619,141,000 were classified as held for sale. During the nine months ended September 30, 2018, we recorded impairment charges of $39,557,000 on certain held for sale properties for which the carrying values exceeded the fair values, less estimated costs to sell if applicable. The following is a summary of our real property disposition activity for the periods presented (in thousands):

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	Nine Months Ended	
	September 30, 2018	September 30, 2017
Real estate dispositions:		
Triple-net	$604,480	$ 899,104
Seniors housing operating	2,200	16,206
Outpatient medical	223,069	12,202
Total dispositions	829,749	927,512
Gain (loss) on real estate dispositions, net	373,662	287,869
Net other assets/liabilities disposed	5,090	22,470
Proceeds from real estate dispositions	$1,208,501	$ 1,237,851

Dispositions and Assets Held for Sale

Pursuant to our adoption of ASU No. 2014-08, “Presentation of Financial Statements (Topic 205) and Property, Plant and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity”, operating results attributable to properties sold subsequent to or classified as held for sale after January 1, 2014 and which do not meet the definition of discontinued operations are no longer reclassified on our Consolidated Statements of Comprehensive Income. The following represents the activity related to these properties for the periods presented (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenues:				
Total revenues	$29,035	$52,584	$92,447	$175,934
Expenses:				
Interest expense	18	1,243	261	5,514
Property operating expenses	21,312	19,147	59,640	58,525
Provision for depreciation	801	10,999	6,605	33,806
Total expenses	22,131	31,389	66,506	97,845
Income (loss) from real estate dispositions, net	$6,904	$21,195	$25,941	$78,089

6. Real Estate Loans Receivable

Please see Note 2 to the financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2017 for discussion of our accounting policies for real estate loans receivable and related interest income.

The following is a summary of our real estate loan activity for the periods presented (in thousands):

	Nine Months Ended September 30, 2018				September 30, 2017		
	Triple-net	Seniors Housing Operating	Outpatient Medical	Totals	Triple-net	Outpatient Medical	Totals
Advances on real estate loans receivable:							
Investments in new loans	$10,628	$ 11,806	$ 14,993	$37,427	$11,315	$ —	$11,315
Draws on existing loans	29,709	—	—	29,709	58,736	—	58,736
Net cash advances on real estate loans	40,337	11,806	14,993	67,136	70,051	—	70,051
Receipts on real estate loans receivable:							
Loan payoffs	116,161	—	—	116,161	142,392	60,500	202,892

Principal payments on loans	33,431	—	—	33,431	1,121	—	1,121
Sub-total	149,592	—	—	149,592	143,513	60,500	204,013
Less: Non-cash activity[1]	—	—	—	—	(61,250)	(60,500)	(121,750)
Net cash receipts on real estate loans	149,592	—	—	149,592	82,263	—	82,263
Net cash advances (receipts) on real estate loans	$(109,255)	$ 11,806	$ 14,993	$(82,456)	$(12,212)	$ —	$(12,212)

[1] Triple-net represents acquisitions of assets previously financed as real estate loans. Please see Note 3 for additional information. Outpatient medical represents a deed in lieu of foreclosure on a previously financed first mortgage property.

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In 2016, we restructured real estate loans with Genesis HealthCare and recorded a loan loss charge in the amount of $6,935,000 on one of the loans as the present value of expected future cash flows was less than the carrying value of the loan. In 2017, we recorded an additional loan loss charge of $62,966,000 relating to real estate loans with Genesis HealthCare based on an estimation of expected future cash flows discounted at the effective interest rate of the loans. At September 30, 2018, the allowance for loan losses totals $68,372,000 and is deemed to be sufficient to absorb expected losses related to these loans. At September 30, 2018, we had one real estate loan with an outstanding balance of $2,598,000 on non-accrual status and recorded no provision for loan losses during the nine months ended September 30, 2018.
The following is a summary of our impaired loans (in thousands):

	Nine Months Ended	
	September 30, 2018	September 30, 2017
Balance of impaired loans at end of period	$201,971	$ 282,929
Allowance for loan losses	68,372	5,406
Balance of impaired loans not reserved	$133,599	$ 277,523
Average impaired loans for the period	$230,645	$ 324,255
Interest recognized on impaired loans[1]	13,361	23,957

[1] Represents cash interest recognized in the period since loans were identified as impaired.

7. Investments in Unconsolidated Entities

We participate in a number of joint ventures, which generally invest in seniors housing and health care real estate. The results of operations for these entities have been included in our consolidated results of operations from the date of acquisition by the joint ventures and are reflected in our Consolidated Statements of Comprehensive Income as income or loss from unconsolidated entities. The following is a summary of our investments in unconsolidated entities (dollars in thousands):

	Percentage Ownership[1]	September 30, 2018	December 31, 2017
Triple-net	10% to 49%	$ 21,004	$ 22,856
Seniors housing operating	10% to 50%	310,175	352,430
Outpatient medical	43%	92,013	70,299
Total		$ 423,192	$ 445,585

[1] Excludes in-substance real estate investments.

At September 30, 2018, the aggregate unamortized basis difference of our joint venture investments of $106,625,000 is primarily attributable to the difference between the amount for which we purchase our interest in the entity, including transaction costs, and the historical carrying value of the net assets of the joint venture. This difference is being amortized over the remaining useful life of the related properties and included in the reported amount of income from unconsolidated entities.

8. Credit Concentration

We use consolidated net operating income ("NOI") as our credit concentration metric. See Note 17 for additional information and reconciliation. The following table summarizes certain information about our credit concentration for the nine months ended September 30, 2018, excluding our share of NOI in unconsolidated entities (dollars in thousands):

Concentration by relationship:[1]	Number of Properties	Total NOI	Percent of NOI[2]

Sunrise Senior Living[3]	161	$252,111	15%
Brookdale Senior Living	137	117,367	7%
Revera[3]	98	116,158	7%
Genesis HealthCare	88	102,015	6%
Benchmark Senior Living	48	75,435	4%
Remaining portfolio	997	1,013,797	61%
Totals	1,529	$1,676,883	100%

(1) Genesis Healthcare is in our triple-net segment. Sunrise Senior Living and Revera are in our seniors housing operating segment. Benchmark Senior Living and Brookdale Senior Living are in both our triple-net and seniors housing operating segments.
(2) NOI with our top five relationships comprised 41% of total NOI for the year ended December 31, 2017.
(3) Revera owns a controlling interest in Sunrise Senior Living.

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9. Borrowings Under Credit Facilities and Related Items

At September 30, 2018, we had a primary unsecured credit facility with a consortium of 31 banks that includes a $3,000,000,000 unsecured revolving credit facility, a $500,000,000 unsecured term credit facility and a $250,000,000 Canadian-denominated unsecured term credit facility. We have an option, through an accordion feature, to upsize the unsecured revolving credit facility and the $500,000,000 unsecured term credit facility by up to an additional $1,000,000,000, in the aggregate, and the $250,000,000 Canadian-denominated unsecured term credit facility by up to an additional $250,000,000. The primary unsecured credit facility also allows us to borrow up to $1,000,000,000 in alternate currencies (none outstanding at September 30, 2018). Borrowings under the unsecured revolving credit facility are subject to interest payable at the applicable margin over LIBOR interest rate (3.09% at September 30, 2018). The applicable margin is based on our debt ratings and was 0.825% at September 30, 2018. In addition, we pay a facility fee quarterly to each bank based on the bank's commitment amount. The facility fee depends on our debt ratings and was 0.15% at September 30, 2018. The term credit facilities mature on July 19, 2023. The revolving credit facility is scheduled to mature on July 19, 2022 and can be extended for two successive terms of six months each at our option.

The following information relates to aggregate borrowings under the primary unsecured revolving credit facility for the periods presented (dollars in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Balance outstanding at quarter end	$1,312,000	$420,000	$1,312,000	$420,000
Maximum amount outstanding at any month end	$2,148,000	$645,000	$2,148,000	$1,010,000
Average amount outstanding (total of daily principal balances divided by days in period)	$1,519,000	$450,130	$819,516	$601,346
Weighted average interest rate (actual interest expense divided by average borrowings outstanding)	3.00 %	2.19 %	2.95 %	1.95 %

10. Senior Unsecured Notes and Secured Debt

We may repurchase, redeem or refinance senior unsecured notes from time to time, taking advantage of favorable market conditions when available. We may purchase senior notes for cash through open market purchases, privately negotiated transactions, a tender offer or, in some cases, through the early redemption of such securities pursuant to their terms. The senior unsecured notes are redeemable at our option, at any time in whole or from time to time in part, at a redemption price equal to the sum of (1) the principal amount of the notes (or portion of such notes) being redeemed plus accrued and unpaid interest thereon up to the redemption date and (2) any "make-whole" amount due under the terms of the notes in connection with early redemptions. Redemptions and repurchases of debt, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. At September 30, 2018, the annual principal payments due on these debt obligations were as follows (in thousands):

	Senior Unsecured Notes(1,2)	Secured Debt (1,3)	Totals
2018	$—	$170,742	$170,742
2019	600,000	489,166	1,089,166
2020(4)	689,662	138,938	828,600
2021	450,000	347,280	797,280
2022	600,000	225,832	825,832
Thereafter(5,6,7,8)	7,414,034	1,107,797	8,521,831
Totals	$9,753,696	$2,479,755	$12,233,451

(1) Amounts represent principal amounts due and do not include unamortized premiums/discounts, debt issuance costs, or other fair value adjustments as reflected on the balance sheet.
(2) Annual interest rates range from 2.73% to 6.50%.
(3) Annual interest rates range from 1.69% to 7.93%. Carrying value of the properties securing the debt totaled $5,303,414,000 at September 30, 2018.
(4) Includes a $300,000,000 Canadian-denominated 3.35% senior unsecured notes due 2020 (approximately $232,162,000 based on the Canadian/U.S. Dollar exchange rate on September 30, 2018).
(5) Includes a $250,000,000 Canadian-denominated unsecured term credit facility (approximately $193,469,000 based on the Canadian/U.S. Dollar exchange rate on September 30, 2018). The loan matures on July 19, 2023 and bears interest at the Canadian Dealer Offered Rate plus 0.9% (2.73% at September 30, 2018).
(6) Includes a $500,000,000 unsecured term credit facility. The loan matures on July 19, 2023 and bears interest at LIBOR plus 0.9% (3.07% at September 30, 2018).
(7) Includes a £550,000,000 4.80% senior unsecured notes due 2028 (approximately $717,915,000 based on the Sterling/U.S. Dollar exchange rate in effect on September 30, 2018).
(8) Includes a £500,000,000 4.50% senior unsecured notes due 2034 (approximately $652,650,000 based on the Sterling/U.S. Dollar exchange rate in effect on September 30, 2018).

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The following is a summary of our senior unsecured notes principal activity during the periods presented (dollars in thousands):

	Nine Months Ended September 30, 2018		September 30, 2017	
	Amount	Weighted Avg. Interest Rate	Amount	Weighted Avg. Interest Rate
Beginning balance	$8,417,447	4.31%	$8,260,038	4.25%
Debt issued	2,850,000	4.57%	7,500	1.94%
Debt extinguished	(1,450,000)	3.46%	(5,000)	1.83%
Foreign currency	(63,751)	4.30%	141,855	4.24%
Ending balance	$9,753,696	4.45%	$8,404,393	4.29%

The following is a summary of our secured debt principal activity for the periods presented (dollars in thousands):

	Nine Months Ended September 30, 2018		September 30, 2017	
	Amount	Weighted Avg. Interest Rate	Amount	Weighted Avg. Interest Rate
Beginning balance	$2,618,408	3.76%	$3,465,066	4.09%
Debt issued	44,606	3.38%	190,459	2.73%
Debt assumed	99,552	4.30%	23,094	6.67%
Debt extinguished	(196,573)	5.66%	(1,003,372)	5.32%
Principal payments	(42,294)	3.91%	(47,507)	4.34%
Foreign currency	(43,944)	3.29%	92,262	3.20%
Ending balance	$2,479,755	3.79%	$2,720,002	3.74%

Our debt agreements contain various covenants, restrictions and events of default. Certain agreements require us to maintain certain financial ratios and minimum net worth and impose certain limits on our ability to incur indebtedness, create liens and make investments or acquisitions. As of September 30, 2018, we were in compliance with all of the covenants under our debt agreements.

11. Derivative Instruments

We are exposed to, among other risks, the impact of changes in foreign currency exchange rates as a result of our non-U.S. investments. Our risk management program is designed to manage the exposure and volatility arising from these risks, and utilizes derivative financial instruments and debt issued in foreign currencies to offset a portion of these risks.

Foreign Currency Forward Contracts Designated as Cash Flow Hedges

For instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative is deferred as a component of other comprehensive income (“OCI”), and reclassified into earnings in the same period or periods, during which the hedged transaction affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in earnings.

Foreign Currency Forward Contracts and Cross Currency Swap Contracts Designated as Net Investment Hedges

We use foreign currency forward and cross currency forward swap contracts to hedge a portion of the net investment in foreign subsidiaries against fluctuations in foreign exchange rates. For instruments that are designated and qualify as net investment hedges, the variability in the foreign currency to U.S. Dollar of the instrument is recorded as a cumulative translation adjustment component of OCI.

In the second quarter of 2018, we redesignated these derivative financial instruments that qualify as hedges of net investments in foreign operations using the spot method in order to more closely align the underlying economics of the hedged transactions. The changes in fair values and the excluded components of derivative instruments designated as net investment hedges are recognized as a cumulative translation adjustment component of OCI. The cross currency basis spread is recognized in interest expense on the Consolidated Statement of Comprehensive Income using the swap accrual process. Prior to the adoption of ASU

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2017-12, all settlements and changes in fair values of these derivative instruments were recognized as a cumulative transaction adjustment component of OCI and there had been no ineffectiveness on these hedging relationships. During the nine months ended September 30, 2018 and 2017, we settled certain net investment hedges generating cash proceeds of $70,937,000 and $55,771,000, respectively. The balance of the cumulative translation adjustment will be reclassified to earnings if the hedged investment is sold or substantially liquidated.

Derivative Contracts Undesignated

We use foreign currency exchange contracts to manage existing exposures to foreign currency exchange risk. Gains and losses resulting from the changes in fair value of these instruments are recorded in interest expense on the consolidated statement of comprehensive income, and are substantially offset by net revaluation impacts on foreign currency denominated balance sheet exposures.

In addition, we have several interest rate cap contracts related to variable rate secured debt agreements. Gains and losses resulting from the changes in fair values of these instruments are also recorded in interest expense.

The following presents the notional amount of derivatives and other financial instruments as of the dates indicated (in thousands):

	September 30, 2018	December 31, 2017
Derivatives designated as net investment hedges:		
Denominated in Canadian Dollars	$ 575,000	$ 575,000
Denominated in Pounds Sterling	£ 890,708	£ 550,000
Financial instruments designated as net investment hedges:		
Denominated in Canadian Dollars	$ 250,000	$ 250,000
Denominated in Pounds Sterling	£ 1,050,000	£ 1,050,000
Derivatives designated as cash flow hedges:		
Denominated in Canadian Dollars	$ —	$ 36,000
Derivative instruments not designated:		
Denominated in U.S. Dollars	$ 405,819	$ 408,007
Forward purchase contracts denominated in Canadian Dollars	$ (500,000)	$ —
Forward sales contracts denominated in Canadian Dollars	$ 580,000	$ 80,000
Forward purchase contracts denominated in Pounds Sterling	£ (350,000)	£ —
Forward sales contracts denominated in Pounds Sterling	£ 350,000	£ —

The following presents the impact of derivative instruments on the Consolidated Statements of Comprehensive Income for the periods presented (in thousands):

		Three Months Ended September 30,		Nine Months Ended September 30,	
	Location	2018	2017	2018	2017
Gain (loss) on derivative instruments designated as hedges recognized in income	Interest expense	$4,185	$(576)	$8,008	$3,613
Gain (loss) on derivative instruments not designated as hedges recognized in income	Interest expense	$(203)	$(294)	$2,250	$(1,228)
	OCI	$12,200	$(98,003)	$100,205	$(239,884)

Gain (loss) on foreign exchange contracts and term loans
designated as net investment hedge recognized in OCI

12. Commitments and Contingencies

At September 30, 2018, we had 13 outstanding letter of credit obligations totaling $51,684,000 and expiring between 2018 and 2024. At September 30, 2018, we had outstanding construction in progress of $135,343,000 and were committed to providing additional funds of approximately $332,834,000 to complete construction. At September 30, 2018, we had contingent purchase

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obligations totaling $10,245,000. These contingent purchase obligations relate to unfunded capital improvement obligations and contingent obligations on acquisitions. Rents due from the tenant are increased to reflect the additional investment in the property.

We evaluate our leases for operating versus capital lease treatment in accordance with ASC Topic 840 “Leases.” A lease is classified as a capital lease if it provides for transfer of ownership of the leased asset at the end of the lease term, contains a bargain purchase option, has a lease term greater than 75% of the economic life of the leased asset, or if the net present value of the future minimum lease payments are in excess of 90% of the fair value of the leased asset. Certain leases contain bargain purchase options and have been classified as capital leases. At September 30, 2018, we had operating lease obligations of $1,107,336,000 relating to certain ground leases and company office space and capital lease obligations of $85,308,000 relating primarily to certain investment properties. Regarding ground leases, we have sublease agreements with certain of our operators that require the operators to reimburse us for our monthly operating lease obligations. At September 30, 2018, aggregate future minimum rentals to be received under these noncancelable subleases totaled $73,771,000.

13. Stockholders’ Equity

The following is a summary of our stockholders’ equity capital accounts as of the dates indicated:

	September 30, 2018	December 31, 2017
Preferred Stock:		
Authorized shares	50,000,000	50,000,000
Issued shares	14,375,000	14,375,000
Outstanding shares	14,369,965	14,370,060
Common Stock, $1.00 par value:		
Authorized shares	700,000,000	700,000,000
Issued shares	376,759,924	372,852,311
Outstanding shares	375,576,579	371,731,551

Preferred Stock. The following is a summary of our preferred stock activity during the periods indicated:

	Nine Months Ended September 30, 2018		September 30, 2017	
	Shares	Weighted Avg. Dividend Rate	Shares	Weighted Avg. Dividend Rate
Beginning balance	14,370,060	6.50%	25,875,000	6.50%
Shares redeemed	—	0.00%	(11,500,000)	6.50%
Shares converted	(95)	6.50%	(4,935)	6.50%
Ending balance	14,369,965	6.50%	14,370,065	6.50%

During the nine months ended September 30, 2017, we recognized a charge of $9,769,000 in connection with the redemption of the Series J preferred stock.

Common Stock. The following is a summary of our common stock issuances during the nine months ended September 30, 2018 and 2017 (dollars in thousands, except average price amounts):

	Shares Issued	Average Price	Gross Proceeds	Net Proceeds
2017 Dividend reinvestment plan issuances	4,312,447	$71.14	$ 306,785	$ 305,996
2017 Option exercises	209,192	50.62	10,590	10,590
2017 Equity shelf program issuances	2,986,574	72.30	215,917	214,406
2017 Preferred stock conversions	4,296		—	—
2017 Redemption of equity membership units	91,180		—	—

2017 Stock incentive plans, net of forfeitures	135,773		—	—
2017 Totals	7,739,462		$ 533,292	$ 530,992
2018 Dividend reinvestment plan issuances	1,755,446	$64.24	$ 112,770	$ 112,294
2018 Option exercises	32,120	39.94	1,283	1,283
2018 Equity shelf program issuances	1,944,511	66.72	129,744	128,834
2018 Preferred stock conversions	83		—	—
2018 Stock incentive plans, net of forfeitures	112,868		—	—
2018 Totals	3,845,028		$ 243,797	$ 242,411

Dividends. The increase in dividends is primarily attributable to increases in our common shares outstanding as described above. The following is a summary of our dividend payments (in thousands, except per share amounts):

	Nine Months Ended			
	September 30, 2018		September 30, 2017	
	Per Share	Amount	Per Share	Amount
Common Stock	$2.6100	$971,280	$2.6100	$955,631
Series I Preferred Stock	2.4375	35,028	2.4375	35,035
Series J Preferred Stock	—	—	0.2347	2,699
Totals		$1,006,308		$993,365

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Accumulated Other Comprehensive Income. The following is a summary of accumulated other comprehensive income (loss) for the periods presented (in thousands):

	Unrecognized gains (losses) related to:				
	Foreign Currency Translation	Available for Sale Securities	Actuarial Losses	Cash Flow Hedges	Total
Balance at December 31, 2017	$(110,581)	$—	$(884)	$ —	$(111,465)
Other comprehensive income before reclassification adjustments	(27,026)	—	—	—	(27,026)
Net current-period other comprehensive income	(27,026)	—	—	—	(27,026)
Balance at September 30, 2018	$(137,607)	$—	$(884)	$ —	$(138,491)
Balance at December 31, 2016	$(173,496)	$5,120	$(1,153)	$ (2)	$(169,531)
Other comprehensive income before reclassification adjustments	48,574	(20,285)	—	2	28,291
Net current-period other comprehensive income	48,574	(20,285)	—	2	28,291
Balance at September 30, 2017	$(124,922)	$(15,165)	$(1,153)	$ —	$(141,240)

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14. Stock Incentive Plans

Our 2016 Long-Term Incentive Plan ("2016 Plan") authorizes up to 10,000,000 shares of common stock to be issued at the discretion of the Compensation Committee of the Board of Directors. Our non-employee directors, officers and key employees are eligible to participate in the 2016 Plan. The 2016 Plan allows for the issuance of, among other things, stock options, stock appreciation rights, restricted stock, deferred stock units, performance units and dividend equivalent rights. Vesting periods for options, deferred stock units and restricted shares generally range from three to five years. Options expire ten years from the date of grant. Stock-based compensation expense totaled $6,075,000 and $22,800,000 for the three and nine months ended September 30, 2018, respectively, and $6,790,000 and $16,459,000 for the same periods in 2017.

15. Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share (in thousands, except per share data):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Numerator for basic and diluted earnings per share - net income (loss) attributable to common stockholders	$64,384	$74,043	$656,487	$575,118
Denominator for basic earnings per share - weighted average shares	373,023	369,089	372,052	366,096
Effect of dilutive securities:				
Employee stock options	6	40	12	53
Non-vested restricted shares	348	515	464	464
Redeemable shares	1,096	1,096	1,096	1,281
Employee stock purchase program	14	—	14	—
Dilutive potential common shares	1,464	1,651	1,586	1,798
Denominator for diluted earnings per share - adjusted weighted average shares	374,487	370,740	373,638	367,894
Basic earnings per share	$0.17	$0.20	$1.76	$1.57
Diluted earnings per share	$0.17	$0.20	$1.76	$1.56

The Series I Cumulative Convertible Perpetual Preferred Stock was not included in the calculations as the effect of conversions into common stock was anti-dilutive.

16. Disclosure about Fair Value of Financial Instruments

U.S. GAAP provides authoritative guidance for measuring and disclosing fair value measurements of assets and liabilities. The guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The guidance also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Please see Note 2 to the financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2017 for additional information. The guidance describes three levels of inputs that may be used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value.

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Mortgage Loans and Other Real Estate Loans Receivable — The fair value of mortgage loans and other real estate loans receivable is generally estimated by using Level 2 and Level 3 inputs such as discounting the estimated future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.
Cash and Cash Equivalents and Restricted Cash — The carrying amount approximates fair value.
Equity Securities — Equity securities are recorded at their fair value based on Level 1 publicly available trading prices.
Borrowings Under Primary Unsecured Credit Facility — The carrying amount of the primary unsecured credit facility approximates fair value because the borrowings are interest rate adjustable.
Senior Unsecured Notes — The fair value of the senior unsecured notes payable was estimated based on Level 1 publicly available trading prices. The carrying amount of the variable rate senior unsecured notes approximates fair value because they are interest rate adjustable.
Secured Debt — The fair value of fixed rate secured debt is estimated using Level 2 inputs by discounting the estimated future cash flows using the current rates at which similar loans would be made with similar credit ratings and for the same remaining maturities. The carrying amount of variable rate secured debt approximates fair value because the borrowings are interest rate adjustable.
Foreign Currency Forward Contracts and Cross Currency Swaps — Foreign currency forward contracts and cross currency swaps are recorded in other assets or other liabilities on the balance sheet at fair market value. Fair market value is determined using Level 2 inputs by estimating the future value of the currency pair based on existing exchange rates, comprised of current spot and traded forward points, and calculating a present value of the net amount using a discount factor based on observable traded interest rates.
Redeemable OP Unitholder Interests — Our redeemable unitholder interests are recorded on the balance sheet at fair value using Level 2 inputs. The fair value is measured using the closing price of our common stock, as units may be redeemed at the election of the holder for cash or, at our option, one share of our common stock per unit, subject to adjustment in certain circumstances.
The carrying amounts and estimated fair values of our financial instruments are as follows (in thousands):

	September 30, 2018		December 31, 2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Mortgage loans receivable	$266,286	$273,620	$306,120	$332,508
Other real estate loans receivable	74,538	75,091	121,379	125,480
Equity securities	12,912	12,912	7,269	7,269
Cash and cash equivalents	191,199	191,199	243,777	243,777
Restricted cash	90,086	90,086	65,526	65,526
Foreign currency forward contracts and cross currency swaps	34,902	34,902	15,604	15,604
Financial liabilities:				
Borrowings under unsecured credit facilities	$1,312,000	$1,312,000	$719,000	$719,000
Senior unsecured notes	9,655,022	10,169,806	8,331,722	9,168,432
Secured debt	2,465,661	2,464,635	2,608,976	2,641,997
Foreign currency forward contracts and cross currency swaps	78,566	78,566	38,654	38,654
Redeemable OP unitholder interests	$97,476	$97,476	$97,476	$97,476

Items Measured at Fair Value on a Recurring Basis
The market approach is utilized to measure fair value for our financial assets and liabilities reported at fair value on a recurring basis. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. The following summarizes items measured at fair value on a recurring basis (in thousands):

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

	Fair Value Measurements as of September 30, 2018			
	Total	Level 1	Level 2	Level 3
Equity securities	$12,912	$12,912	$—	$ —
Foreign currency forward contracts and cross currency swaps, net asset (liability)[1]	(43,664)	—	(43,664)	—
Redeemable OP unitholder interests	97,476	—	97,476	—
Totals	$66,724	$12,912	$53,812	$ —

[1] Please see Note 11 for additional information.

Items Measured at Fair Value on a Nonrecurring Basis

In addition to items that are measured at fair value on a recurring basis, we also have assets and liabilities in our balance sheet that are measured at fair value on a nonrecurring basis. As these assets and liabilities are not measured at fair value on a recurring basis, they are not included in the tables above. Assets, liabilities and noncontrolling interests that are measured at fair value on a nonrecurring basis include those acquired/assumed. Asset impairments (if applicable, see Note 5 for impairments of real property and Note 6 for impairments of loans receivable) are also measured at fair value on a nonrecurring basis. We have determined that the fair value measurements included in each of these assets and liabilities rely primarily on company-specific inputs and our assumptions about the use of the assets and settlement of liabilities, as observable inputs are not available. As such, we have determined that each of these fair value measurements generally resides within Level 3 of the fair value hierarchy. We estimate the fair value of real estate and related intangibles using the income approach and unobservable data such as net operating income and estimated capitalization and discount rates. We also consider local and national industry market data including comparable sales, and commonly engage an external real estate appraiser to assist us in our estimation of fair value. We estimate the fair value of assets held for sale based on current sales price expectations or, in the absence of such price expectations, Level 3 inputs described above. We estimate the fair value of loans receivable using projected payoff valuations based on the expected future cash flows and/or the estimated fair value of collateral, net of sales costs, if the repayment of the loan is expected to be provided solely by the collateral. We estimate the fair value of secured debt assumed in business combinations and asset acquisitions using current interest rates at which similar borrowings could be obtained on the transaction date.

17. Segment Reporting

We invest in seniors housing and health care real estate. We evaluate our business and make resource allocations on our three operating segments: triple-net, seniors housing operating and outpatient medical. Our triple-net properties include long-term/post-acute care facilities, assisted living facilities, independent living/continuing care retirement communities, care homes (United Kingdom), independent supportive living facilities (Canada), care homes with nursing (United Kingdom) and combinations thereof. Under the triple-net segment, we invest in seniors housing and health care real estate through acquisition and financing of primarily single tenant properties. Properties acquired are primarily leased under triple-net leases and we are not involved in the management of the property. Our seniors housing operating properties include the seniors housing communities referenced above that are owned and/or operated through RIDEA structures (see Note 18). Our outpatient medical properties are typically leased to multiple tenants and generally require a certain level of property management.

We evaluate performance based upon consolidated net operating income (“NOI”) of each segment. We define NOI as total revenues, including tenant reimbursements, less property operating expenses. We believe NOI provides investors relevant and useful information as it measures the operating performance of our properties at the property level on an unleveraged basis. We use NOI to make decisions about resource allocations and to assess the property level performance of our properties.

Non-segment revenue consists mainly of interest income on certain non-real estate investments and other income. Non-segment assets consist of corporate assets including cash, deferred loan expenses and corporate offices and equipment among others. Non-property specific revenues and expenses are not allocated to individual segments in determining NOI. The accounting policies of the segments are the same as those described in the summary of significant accounting policies (see Note 2 to the financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2017). The results of operations for all acquisitions described in Note 3 are included in our consolidated results of operations from the acquisition dates and are components of the appropriate segments. There are no intersegment sales or transfers.

Summary information for the reportable segments (which excludes unconsolidated entities) is as follows (in thousands):

Three Months Ended September 30, 2018:	Triple-net	Seniors Housing Operating	Outpatient Medical	Non-segment / Corporate	Total
Rental income	$203,039	$—	$139,848	$—	$342,887
Resident fees and services	—	875,171	—	—	875,171
Interest income	14,378	159	85	—	14,622
Other income	1,693	1,175	136	695	3,699
Total revenues	219,110	876,505	140,069	695	1,236,379
Property operating expenses	426	610,659	46,072	—	657,157
Consolidated net operating income	218,684	265,846	93,997	695	579,222
Interest expense	3,500	17,319	1,643	115,570	138,032
Loss (gain) on derivatives and financial instruments, net	8,991	—	—	—	8,991
Depreciation and amortization	60,383	136,532	46,234	—	243,149
General and administrative	—	—	—	28,746	28,746
Loss (gain) on extinguishment of debt, net	—	—	—	4,038	4,038
Impairment of assets	6,178	562	—	—	6,740
Other expenses	87,076 (1)	(811)	1,055	1,306	88,626
Income (loss) from continuing operations before income taxes and income from unconsolidated entities	52,556	112,244	45,065	(148,965)	60,900
Income tax (expense) benefit	1,116	211	239	(3,307)	(1,741)
Income (loss) from unconsolidated entities	5,377	(6,705)	1,672	—	344
Income (loss) from continuing operations	59,049	105,750	46,976	(152,272)	59,503
Gain (loss) on real estate dispositions, net	24,782	(1)	(58)	—	24,723
Net income (loss)	$83,831	$105,749	$46,918	$(152,272)	$84,226
Total assets	$10,163,867	$14,989,442	$4,953,277	$142,533	$30,249,119

Three Months Ended September 30, 2017:	Triple-net	Seniors Housing Operating	Outpatient Medical	Non-segment / Corporate	Total
Rental income	$221,555	$—	$141,325	$—	$362,880
Resident fees and services	—	702,380	—	—	702,380
Interest income	20,187	—	—	—	20,187
Other income	3,174	1,497	667	698	6,036
Total revenues	244,916	703,877	141,992	698	1,091,483
Property operating expenses	—	478,777	45,220	—	523,997
Consolidated net operating income	244,916	225,100	96,772	698	567,486

Interest expense	3,622	16,369	2,929	99,658	122,578
Loss (gain) on derivatives and financial instruments, net	324	—	—	—	324
Depreciation and amortization	62,891	119,089	48,158	—	230,138
General and administrative	—	—	—	29,913	29,913
Other expenses	89,236 [(1)]	5,157	530	4,672	99,595
Income (loss) from continuing operations before income taxes and income from unconsolidated entities	88,843	84,485	45,155	(133,545)	84,938
Income tax (expense) benefit	(816)	(1,519)	(366)	2,032	(669)
Income (loss) from unconsolidated entities	5,478	(2,886)	816	—	3,408
Income (loss) from continuing operations	93,505	80,080	45,605	(131,513)	87,677
Gain (loss) on real estate dispositions, net	(185)	(197)	2,004	—	1,622
Net income (loss)	$93,320	$79,883	$47,609	$(131,513)	$89,299

(1) Represents non-capitalizable transaction costs primarily related to a joint venture transaction with an existing seniors housing operator including the conversion of properties from triple-net to seniors housing operating, an exchange of PropCo/OpCo interests, and termination/restructuring of pre-existing relationships.

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Nine Months Ended September 30, 2018	Triple-net	Seniors Housing Operating	Outpatient Medical	Non-segment / Corporate	Total
Rental income	$607,831	$—	$412,026	$—	$1,019,857
Resident fees and services	—	2,374,450	—	—	2,374,450
Interest income	42,176	416	140	—	42,732
Other income	16,282	3,973	401	1,561	22,217
Total revenues	666,289	2,378,839	412,567	1,561	3,459,256
Property operating expenses	583	1,648,262	133,528	—	1,782,373
Consolidated net operating income	665,706	730,577	279,039	1,561	1,676,883
Interest expense	10,742	51,225	4,975	315,281	382,223
Loss (gain) on derivatives and financial instruments, net	(5,642)	—	—	—	(5,642)
Depreciation and amortization	171,724	397,080	138,821	—	707,625
General and administrative	—	—	—	95,282	95,282
Loss (gain) on extinguishment of debt, net	(32)	110	11,928	4,038	16,044
Impairment of assets	34,482	5,075	—	—	39,557
Other expenses	89,153	5,168	3,748	4,327	102,396
Income (loss) from continuing operations before income taxes and income from unconsolidated entities	365,279	271,919	119,567	(417,367)	339,398
Income tax (expense) benefit	(708)	(2,244)	(567)	(3,651)	(7,170)
Income (loss) from unconsolidated entities	16,260	(21,389)	4,293	—	(836)
Income (loss) from continuing operations	380,831	248,286	123,293	(421,018)	331,392
Gain (loss) on real estate dispositions, net	158,938	3	214,721	—	373,662
Net income (loss)	$539,769	$248,289	$338,014	$(421,018)	$705,054

Nine Months Ended September 30, 2017	Triple-net	Seniors Housing Operating	Outpatient Medical	Non-segment / Corporate	Total
Rental income	$666,735	$—	$418,886	$—	$1,085,621
Resident fees and services	—	2,049,757	—	—	2,049,757
Interest income	61,767	69	—	—	61,836
Other income	7,496	4,005	2,497	1,171	15,169
Total revenues	735,998	2,053,831	421,383	1,171	3,212,383
Property operating expenses	—	1,400,313	135,708	—	1,536,021
Consolidated net operating income	735,998	653,518	285,675	1,171	1,676,362
Interest expense	11,647	47,587	7,342	290,829	357,405
Loss (gain) on derivatives and financial instruments, net	2,284	—	—	—	2,284
Depreciation and amortization	182,672	356,023	144,567	—	683,262
General and administrative	—	—	—	93,643	93,643
Loss (gain) on extinguishment of debt, net	29,083	3,414	4,373	—	36,870
Impairment of assets	4,846	14,191	5,625	—	24,662
Other expenses	96,425	8,100	2,201	10,882	117,608
	409,041	224,203	121,567	(394,183)	360,628

Income (loss) from continuing operations before income taxes and income from unconsolidated entities					
Income tax (expense) benefit	(2,070)	9,133	(655)	(873)	5,535
Income (loss) from unconsolidated entities	14,983	(40,527)	1,868	—	(23,676)
Income (loss) from continuing operations	421,954	192,809	122,780	(395,056)	342,487
Gain (loss) on real estate dispositions, net	273,051	12,814	2,004	—	287,869
Net income (loss)	$695,005	$205,623	$124,784	$(395,056)	$630,356

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WELLTOWER INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Our portfolio of properties and other investments are located in the United States, the United Kingdom and Canada. Revenues and assets are attributed to the country in which the property is physically located. The following is a summary of geographic information for the periods presented (dollars in thousands):

	Three Months Ended				Nine Months Ended			
	September 30, 2018		September 30, 2017		September 30, 2018		September 30, 2017	
Revenues:	Amount	%	Amount	%	Amount	%	Amount	%
United States	$1,007,203	81.5 %	$871,431	79.9 %	$2,766,726	80.0 %	$2,582,042	80.4 %
United Kingdom	111,503	9.0 %	105,028	9.6 %	340,059	9.8 %	298,618	9.3 %
Canada	117,673	9.5 %	115,024	10.5 %	352,471	10.2 %	331,723	10.3 %
Total	$1,236,379	100.0%	$1,091,483	100.0%	$3,459,256	100.0%	$3,212,383	100.0%

	As of			
	September 30, 2018		December 31, 2017	
Assets:	Amount	%	Amount	%
United States	$24,616,066	81.4 %	$22,274,443	79.7 %
United Kingdom	3,150,305	10.4 %	3,239,039	11.6 %
Canada	2,482,748	8.2 %	2,430,963	8.7 %
Total	$30,249,119	100.0%	$27,944,445	100.0%

18. Income Taxes and Distributions

We elected to be taxed as a REIT commencing with our first taxable year. To qualify as a REIT for federal income tax purposes, at least 90% of taxable income (excluding 100% of net capital gains) must be distributed to stockholders. REITs that do not distribute a certain amount of current year taxable income in the current year are also subject to a 4% federal excise tax. The main differences between undistributed net income for federal income tax purposes and financial statement purposes are the recognition of straight-line rent for reporting purposes, basis differences in acquisitions, recording of impairments, differing useful lives and depreciation and amortization methods for real property and the provision for loan losses for reporting purposes versus bad debt expense for tax purposes.

Under the provisions of the REIT Investment Diversification and Empowerment Act of 2007 ("RIDEA"), for taxable years beginning after July 30, 2008, a REIT may lease "qualified health care properties" on an arm's-length basis to a taxable REIT subsidiary ("TRS") if the property is operated on behalf of such TRS by a person who qualifies as an "eligible independent contractor." Generally, the rent received from the TRS will meet the related party rent exception and will be treated as "rents from real property." A "qualified health care property" includes real property and any personal property that is, or is necessary or incidental to the use of, a hospital, nursing facility, assisted living facility, congregate care facility, qualified continuing care facility, or other licensed facility which extends medical or nursing or ancillary services to patients. We have entered into various joint ventures that were structured under RIDEA. Resident level rents and related operating expenses for these facilities are reported in the unaudited consolidated financial statements and are subject to federal and state income taxes as the operations of such facilities are included in TRS entities. Certain net operating loss carryforwards could be utilized to offset taxable income in future years. Income taxes reflected in the financial statements primarily represents U.S. federal, state and local income taxes as well as non-U.S. income based or withholding taxes on certain investments located in jurisdictions outside the U.S. The provision for income taxes for the nine months ended September 30, 2018 and 2017, was primarily due to operating income or losses, offset by certain discrete items at our TRS entities. In 2014, we established certain wholly-owned direct and indirect subsidiaries in Luxembourg and Jersey and transferred interests in certain foreign investments into this holding company structure. The structure includes a property holding company that is tax resident in the United Kingdom. No material adverse current tax consequences in Luxembourg, Jersey or the United Kingdom resulted from the creation of this holding company structure and most of the subsidiary entities in the structure are treated as disregarded entities of the company for U.S. federal income tax purposes. The company reflects current and deferred tax liabilities for any such withholding taxes incurred as a result of this holding company structure in its consolidated financial statements. Generally, given current statutes of limitations, we are subject to audit by the Internal Revenue Service ("IRS") for the year ended December 31, 2014 and subsequent years and by state taxing authorities for the year ended December 31, 2013 and subsequent years. The company and its subsidiaries are also subject to audit by the Canada Revenue Agency and provincial authorities generally for periods subsequent to our initial investments in Canada in May 2012, by HM Revenue & Customs for periods subsequent to our initial investments in the United Kingdom in August 2012 and by Luxembourg taxing authorities generally for periods subsequent to our establishment of certain Luxembourg-based subsidiaries during 2014.

19. Variable Interest Entities

We have entered into joint ventures to own certain seniors housing and outpatient medical assets which are deemed to be variable interest entities ("VIE"). We have concluded that we are the primary beneficiary of these VIEs based on a combination of operational control of the joint venture and the rights to receive residual returns or the obligation to absorb losses arising from the joint ventures. Except for capital contributions associated with the initial joint venture formations, the joint ventures have been and are expected to be funded from the ongoing operations of the underlying properties. Accordingly, such joint ventures have been consolidated, and the table below summarizes the balance sheets of consolidated VIEs in the aggregate (in thousands):

	September 30, 2018	December 31, 2017
Assets		
Net real property owned	$ 977,252	$ 1,002,137
Cash and cash equivalents	15,059	12,308
Receivables and other assets	17,922	16,330
Total assets(1)	$ 1,010,233	$ 1,030,775
Liabilities and equity		
Secured debt	$ 466,772	$ 471,103
Accrued expenses and other liabilities	18,144	14,832
Total equity	525,317	544,840
Total liabilities and equity	$ 1,010,233	$ 1,030,775

(1) Note that assets of the consolidated VIEs can only be used to settle obligations relating to such VIEs. Liabilities of the consolidated VIEs represent claims against the specific assets of the VIEs.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

EXECUTIVE SUMMARY

LIQUIDITY AND CAPITAL RESOURCES

RESULTS OF OPERATIONS

OTHER

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis is based primarily on the unaudited consolidated financial statements of Welltower Inc. for the periods presented and should be read together with the notes thereto contained in this Quarterly Report on Form 10-Q. Other important factors are identified in our Annual Report on Form 10-K for the year ended December 31, 2017, including factors identified under the headings “Business,” “Risk Factors,” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” References herein to “we,” “us,” “our,” or the “company” refer to Welltower Inc. and its subsidiaries unless specifically noted otherwise.

Executive Summary

Company Overview

Welltower Inc. (NYSE:WELL), an S&P 500 company headquartered in Toledo, Ohio, is driving the transformation of health care infrastructure. The company invests with leading seniors housing operators, post-acute providers and health systems to fund the real estate and infrastructure needed to scale innovative care delivery models and improve people’s wellness and overall health care experience. Welltower™, a real estate investment trust (“REIT”), owns interests in properties concentrated in major, high-growth markets in the United States (U.S.), Canada and the United Kingdom (U.K.), consisting of seniors housing and post-acute communities and outpatient medical properties. Our capital programs, when combined with comprehensive planning, development and property management services, make us a single-source solution for acquiring, planning, developing, managing, repositioning and monetizing real estate assets.

The following table summarizes our consolidated portfolio for the three months ended September 30, 2018 (dollars in thousands):

Type of Property	NOI[(1)]	Percentage of NOI		Number of Properties
Triple-net	$218,684	37.8	%	749
Seniors housing operating	265,846	46.0	%	521
Outpatient medical	93,997	16.2	%	259
Totals	$578,527	100.0	%	1,529

(1) Represents consolidated NOI and excludes our share of investments in unconsolidated entities. Entities in which we have a joint venture with a minority partner are shown at 100% of the joint venture amount. See Non-GAAP Financial Measures for additional information and reconciliation.

Business Strategy

Our primary objectives are to protect stockholder capital and enhance stockholder value. We seek to pay consistent cash dividends to stockholders and create opportunities to increase dividend payments to stockholders as a result of annual increases in NOI and portfolio growth. To meet these objectives, we invest across the full spectrum of seniors housing and health care real estate and diversify our investment portfolio by property type, relationship and geographic location.

Substantially all of our revenues are derived from operating lease rentals, resident fees and services, and interest earned on outstanding loans receivable. These items represent our primary sources of liquidity to fund distributions and depend upon the continued ability of our obligors to make contractual rent and interest payments to us and the profitability of our operating properties. To the extent that our obligors/partners experience operating difficulties and become unable to generate sufficient cash to make payments or operating distributions to us, there could be a material adverse impact on our consolidated results of operations, liquidity and/or financial condition. To mitigate this risk, we monitor our investments through a variety of methods determined by the type of property. Our asset management process for seniors housing properties generally includes review of monthly financial statements and other operating data for each property, review of obligor/partner creditworthiness, property inspections, and review of covenant compliance relating to licensure, real estate taxes, letters of credit and other collateral. Our internal property management division manages and monitors the outpatient medical portfolio with a comprehensive process including review of tenant relations, lease expirations, the mix of health service providers, hospital/health system relationships, property performance, capital improvement needs, and market conditions among other things. We evaluate the operating environment in each property's market to determine the likely trend in operating performance of the facility. When we identify unacceptable trends, we seek to mitigate, eliminate or transfer the risk. Through these efforts, we are generally able to intervene at an early stage to address any negative trends, and in so doing, support both the collectability of revenue and the value of our investment.

In addition to our asset/property management and research efforts, we also structure our investments to help mitigate payment risk. Operating leases and loans are normally credit enhanced by guaranties and/or letters of credit. In addition, operating leases are typically structured as master leases and loans are generally cross-defaulted and cross-collateralized with other real estate loans, operating leases or agreements between us and the obligor and its affiliates.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

For the nine months ended September 30, 2018, rental income and resident fees and services represented 29% and 69%, respectively, of total revenues. Substantially all of our operating leases are designed with escalating rent structures. Leases with fixed annual rental escalators are generally recognized on a straight-line basis over the initial lease period, subject to a collectability assessment. Rental income related to leases with contingent rental escalators is generally recorded based on the contractual cash rental payments due for the period. Our yield on loans receivable depends upon a number of factors, including the stated interest rate, the average principal amount outstanding during the term of the loan and any interest rate adjustments.

Our primary sources of cash include rent and interest receipts, resident fees and services, borrowings under our primary unsecured credit facility, public issuances of debt and equity securities, proceeds from investment dispositions and principal payments on loans receivable. Our primary uses of cash include dividend distributions, debt service payments (including principal and interest), real property investments (including acquisitions, capital expenditures, construction advances and transaction costs), loan advances, property operating expenses and general and administrative expenses. Depending upon the availability and cost of external capital, we believe our liquidity is sufficient to fund these uses of cash.

We also continuously evaluate opportunities to finance future investments. New investments are generally funded from temporary borrowings under our primary unsecured credit facility, internally generated cash and the proceeds from investment dispositions. Our investments generate cash from NOI and principal payments on loans receivable. Permanent financing for future investments, which replaces funds drawn under our primary unsecured credit facility, has historically been provided through a combination of the issuance of public debt and equity securities and the incurrence or assumption of secured debt.

Depending upon market conditions, we believe that new investments will be available in the future with spreads over our cost of capital that will generate appropriate returns to our stockholders. It is also likely that investment dispositions may occur in the future. To the extent that investment dispositions exceed new investments, our revenues and cash flows from operations could be adversely affected. We expect to reinvest the proceeds from any investment dispositions in new investments. To the extent that new investment requirements exceed our available cash on-hand, we expect to borrow under our primary unsecured credit facility. At September 30, 2018, we had $191,199,000 of cash and cash equivalents, $90,086,000 of restricted cash and $1,688,000,000 of available borrowing capacity under our primary unsecured credit facility.

Key Transactions

Capital. The following summarizes key capital transaction that occurred during the nine months ended September 30, 2018:

- In April 2018, we issued $550,000,000 of 4.25% senior unsecured notes due 2028 for net proceeds of approximately $545,074,000.
- In connection with the QCP acquisition, in July 2018, we drew on a $1,000,000,000 term loan facility to fund a portion of the cash consideration and other expenses.
- In August 2018, we issued $200,000,000 of 4.25% senior unsecured notes due 2028, $600,000,000 of 3.95% senior unsecured notes due 2023 and $500,000,000 of 4.95% senior unsecured notes due 2048 for aggregate net proceeds of approximately $1,284,948,000. Proceeds from these issuances were used to repay advances under the $1,000,000,000 term loan facility drawn on in July 2018 and the primary unsecured credit facility.
- In July 2018, we closed on a new $3,700,000,000 unsecured credit facility with improved pricing across both our line of credit and term loan facility and terminated the existing unsecured credit facility. The credit facility includes a $3,000,000,000 revolving credit facility at a borrowing rate of 0.825% over LIBOR, a $500,000,000 USD unsecured term credit facility at a borrowing rate of 0.90% over LIBOR and a $250,000,000 CAD unsecured term credit facility at 0.90% over CDOR.
- We extinguished $196,573,000 of secured debt at a blended average interest rate of 5.66% and we repaid our $450,000,000 of 2.25% senior unsecured notes at par on maturity on March 15, 2018.
- We raised $241,128,000 through our dividend reinvestment program and our Equity Shelf Program (as defined below).

Investments. The following summarizes our property acquisitions and joint venture investments completed during the nine months ended September 30, 2018 (dollars in thousands):

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	Properties	Investment Amount(1)	Capitalization Rates(2)		Book Amount(3)
Triple-net	303	$2,438,899	6.9	%	$3,062,980
Seniors housing operating	11	599,647	6.7	%	652,640
Outpatient medical	7	120,811	7.1	%	131,010
Totals	321	$3,159,357	6.9	%	$3,846,630

(1) Represents stated pro rata purchase price including cash and any assumed debt but excludes fair value adjustments pursuant to U.S. GAAP.
(2) Represents annualized contractual or projected net operating income to be received in cash divided by investment amounts.
(3) Represents amounts recorded on our books including fair value adjustments pursuant to U.S. GAAP. See Note 3 to our unaudited consolidated financial statements for additional information.

Dispositions. The following summarizes property dispositions made during the nine months ended September 30, 2018 (dollars in thousands):

	Properties	Proceeds(1)	Capitalization Rates(2)		Book Amount(3)
Triple-net	64	$771,112	7.0	%	$ 604,480
Seniors housing operating	2	6,908	6.5	%	2,200
Outpatient medical	18	428,727	6.0	%	223,069
Totals	84	$1,206,747	6.7	%	$ 829,749

(1) Represents pro rata proceeds received upon disposition including any seller financing.
(2) Represents annualized contractual income that was being received in cash at date of disposition divided by disposition proceeds.
(3) Represents carrying value of net real estate assets at time of disposition. See Note 5 to our unaudited consolidated financial statements for additional information.

Dividends. Our Board of Directors announced the annual cash dividend of $3.48 per common share ($0.87 per share quarterly), consistent with 2017. The dividend declared for the quarter ended September 30, 2018 represents the 190th consecutive quarterly dividend payment.

Key Performance Indicators, Trends and Uncertainties

We utilize several key performance indicators to evaluate the various aspects of our business. These indicators are discussed below and relate to operating performance, concentration risk and credit strength. Management uses these key performance indicators to facilitate internal and external comparisons to our historical operating results, in making operating decisions and for budget planning purposes.

Operating Performance. We believe that net income and net income attributable to common stockholders ("NICS") per the Consolidated Statement of Comprehensive Income are the most appropriate earnings measures. Other useful supplemental measures of our operating performance include funds from operations attributable to common stockholders ("FFO"), consolidated net operating income ("NOI") and same store NOI ("SSNOI"); however, these supplemental measures are not defined by U.S. generally accepted accounting principles ("U.S. GAAP"). Please refer to the section entitled "Non-GAAP Financial Measures" for further discussion and reconciliations. These earnings measures (and FFO per share amounts) are widely used by investors and analysts in the valuation, comparison and investment recommendations of companies. The following table reflects the recent historical trends of our operating performance measures for the periods presented (in thousands, except per share amounts):

Three Months Ended

	March 31, 2017	June 30, 2017	September 30, 2017	December 31, 2017	March 31, 2018	June 30, 2018	September 30, 2018
Net income (loss)	$337,610	$203,441	$ 89,299	$(89,743)	$453,555	$167,273	$ 84,226
NICS	312,639	188,429	74,043	(111,523)	437,671	154,432	64,384
FFO	306,231	384,390	295,722	179,224	353,220	378,725	285,272
NOI	552,129	556,747	567,486	556,353	540,500	557,161	579,222
SSNOI	421,328	432,578	439,807	434,754	431,400	438,703	433,523
Per share data (fully diluted):							
NICS	$0.86	$0.51	$ 0.20	$(0.30)	$1.17	$0.41	$ 0.17
FFO	0.84	1.04	0.80	0.48	0.95	1.02	0.76

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Credit Strength. We measure our credit strength both in terms of leverage ratios and coverage ratios. The leverage ratios indicate how much of our balance sheet capitalization is related to long-term debt, net of cash and IRC Section 1031 deposits. The coverage ratios indicate our ability to service interest and fixed charges (interest, secured debt principal amortization and preferred dividends). We expect to maintain capitalization ratios and coverage ratios sufficient to maintain a capital structure consistent with our current profile. The coverage ratios are based on earnings before interest, taxes, depreciation and amortization ("EBITDA"). Please refer to the section entitled "Non-GAAP Financial Measures" for further discussion and reconciliations of these measures. Leverage ratios and coverage ratios are widely used by investors, analysts and rating agencies in the valuation, comparison, investment recommendations and rating of companies. The following table reflects the recent historical trends for our credit strength measures for the periods presented:

	Three Months Ended						
	March, 31 2017	June 30, 2017	September 30, 2017	December 31, 2017	March 31, 2018	June 30, 2018	September 30, 2018
Net debt to book capitalization ratio	42%	41%	42%	43%	42%	42%	46%
Net debt to undepreciated book capitalization ratio	36%	35%	36%	36%	35%	36%	39%
Net debt to market capitalization ratio	29%	27%	29%	31%	34%	31%	34%
Interest coverage ratio	5.67x	4.60x	3.63x	2.35x	6.67x	4.34x	3.38x
Fixed charge coverage ratio	4.53x	3.72x	2.97x	1.93x	5.49x	3.58x	2.85x

Concentration Risk. We evaluate our concentration risk in terms of NOI by property mix, relationship mix and geographic mix. Concentration risk is a valuable measure in understanding what portion of our NOI could be at risk if certain sectors were to experience downturns. Property mix measures the portion of our NOI that relates to our various property types. Relationship mix measures the portion of our NOI that relates to our top five relationships. Geographic mix measures the portion of our NOI that relates to our top five states (or international equivalents). The following table reflects our recent historical trends of concentration risk by NOI for the periods indicated below:

	Three Months Ended						
	March 31, 2017	June 30, 2017	September 30, 2017	December 31, 2017	March 31, 2018	June 30, 2018	September 30, 2018
Property mix:(1)							
Triple-net	45%	44%	43%	42%	41%	40%	38%
Seniors housing operating	38%	39%	40%	41%	42%	43%	46%
Outpatient medical	17%	17%	17%	17%	17%	17%	16%
Relationship mix:(1)							
Sunrise Senior Living(2)	14%	14%	14%	14%	15%	15%	15%
ProMedica Health System	—%	—%	—%	—%	—%	—%	7%
Revera(2)	7%	7%	7%	7%	7%	7%	7%
Genesis HealthCare	9%	9%	9%	7%	6%	6%	6%
Brookdale Senior Living	7%	7%	7%	7%	7%	8%	6%
Remaining relationships	63%	63%	63%	65%	65%	64%	59%
Geographic mix:(1)							
California	13%	14%	13%	13%	14%	14%	13%
United Kingdom	9%	9%	9%	9%	10%	9%	9%
Canada	8%	8%	8%	8%	9%	8%	8%

New Jersey	7%	8%	8%	8%	8%	7%	7%
Texas	7%	7%	7%	8%	8%	8%	7%
Remaining geographic areas	56%	54%	55%	54%	51%	54%	56%

(1) Excludes our share of investments in unconsolidated entities and non-segment/corporate NOI. Entities in which we have a joint venture with a minority partner are shown at 100% of the joint venture amount.
(2) Revera owns a controlling interest in Sunrise Senior Living.

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Lease Expirations. The following table sets forth information regarding lease expirations for certain portions of our portfolio as of September 30, 2018 (dollars in thousands):

	Expiration Year(1)									
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Triple-net:										
Properties	111	—	—	8	12	7	4	55	55	19
Base rent(2)	$49,563	$—	$—	$13,400	$7,843	$—	$10,842	$66,697	$94,556	$33,955
% of base rent	6.2 %	— %	— %	1.7 %	1.0 %	— %	1.4 %	8.3 %	11.8 %	4.2
Units/beds	10,754	—	—	1,416	1,245	1,115	692	4,140	5,869	2,401
% of Units/beds	14.1 %	— %	— %	1.9 %	1.6 %	1.5 %	0.9 %	5.4 %	7.7 %	3.1
Outpatient medical:										
Square feet	337,189	1,121,808	1,372,820	1,559,664	1,706,549	1,271,602	1,290,443	765,244	1,195,467	403,107
Base rent(2)	$9,626	$32,658	$38,720	$43,962	$46,037	$34,306	$37,615	$20,607	$29,059	$10,652
% of base rent	2.4 %	8.1 %	9.5 %	10.8 %	11.3 %	8.5 %	9.3 %	5.1 %	7.2 %	2.6
Leases	112	304	329	310	304	283	149	130	138	79
% of Leases	4.8 %	12.9 %	14.0 %	13.2 %	12.9 %	12.0 %	6.3 %	5.5 %	5.9 %	3.4

(1) Excludes investments in unconsolidated entities. Investments classified as held for sale are included in the current year.
(2) The most recent monthly cash base rent annualized. Base rent does not include tenant recoveries or amortization of above a
market lease intangibles or other non cash income.

We evaluate our key performance indicators in conjunction with current expectations to determine if historical trends are indicative of future results. Our expected results may not be achieved and actual results may differ materially from our expectations. Factors that may cause actual results to differ from expected results are described in more detail in “Cautionary Statement Regarding Forward-Looking Statements” and other sections of this Quarterly Report on Form 10-Q. Management regularly monitors economic and other factors to develop strategic and tactical plans designed to improve performance and maximize our competitive position. Our ability to achieve our financial objectives is dependent upon our ability to effectively execute these plans and to appropriately respond to emerging economic and company-specific trends. Please refer to our Annual Report on Form 10-K for the year ended December 31, 2017, under the headings “Business,” “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” for further discussion of these risk factors.

Corporate Governance

Maintaining investor confidence and trust is important in today’s business environment. Our Board of Directors and management are strongly committed to policies and procedures that reflect the highest level of ethical business practices. Our corporate governance guidelines provide the framework for our business operations and emphasize our commitment to increase stockholder value while meeting all applicable legal requirements. These guidelines meet the listing standards adopted by the New York Stock Exchange and are available on the Internet at www.welltower.com/investors/governance. The information on our website is not incorporated by reference in this Quarterly Report on Form 10-Q, and our web address is included as an inactive textual reference only.

Liquidity and Capital Resources

As of December 31, 2017, we adopted Accounting Standards Update (“ASU”) No. 2016-18, “Restricted Cash,” and ASU No. 2016-15, “Classification of Certain Cash Receipts and Cash Payments.” See Note 2 to the unaudited consolidated financial statements for further information.

Sources and Uses of Cash

Our primary sources of cash include rent and interest receipts, resident fees and services, borrowings under our primary unsecured credit facility, public issuances of debt and equity securities, proceeds from investment dispositions and principal payments on loans receivable. Our primary uses of cash include dividend distributions, debt service payments (including principal and interest), real property investments (including acquisitions, capital expenditures, construction advances and transaction costs), loan advances, property operating expenses, and general and administrative expenses. These sources and uses of cash are reflected in our Consolidated Statements of Cash Flows and are discussed in further detail below. The following is a summary of our sources and uses of cash flows (dollars in thousands):

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	Nine Months Ended		Change	
	September 30, 2018	September 30, 2017	$	%
Cash, cash equivalents and restricted cash at beginning of period	$309,303	$607,220	$(297,917)	-49 %
Cash provided from (used in) operating activities	1,211,148	1,162,464	48,684	4 %
Cash provided from (used in) investing activities	(2,133,293)	400,418	(2,533,711)	n/a
Cash provided from (used in) financing activities	899,559	(1,899,107)	2,798,666	n/a
Effect of foreign currency translation	(5,432)	24,316	(29,748)	n/a
Cash, cash equivalents and restricted cash at end of period	$281,285	$295,311	$(14,026)	-5 %

Operating Activities. The change in net cash provided from operating activities was immaterial. Please see "Results of Operations" for discussion of net income fluctuations. For the nine months ended September 30, 2018 and 2017, cash flow provided from operations exceeded cash distributions to stockholders.

Investing Activities. The changes in net cash provided from/used in investing activities are primarily attributable to changes in acquisition and dispositions, which are summarized above in "Key Transactions" and Notes 3 and 5 of our unaudited consolidated financial statements. The following is a summary of cash used in non-acquisition capital improvement activities (dollars in thousands):

	Nine Months Ended		Change	
	September 30, 2018	September 30, 2017	$	%
New development	$88,146	$198,068	$(109,922)	-55 %
Recurring capital expenditures, tenant improvements and lease commissions	57,384	45,777	11,607	25 %
Renovations, redevelopments and other capital improvements	116,251	113,365	2,886	3 %
Total	$261,781	$357,210	$(95,429)	-27 %

The change in new development is primarily due to the number and size of construction projects on-going during the relevant periods. Renovations, redevelopments and other capital improvements include expenditures to maximize property value, increase net operating income, maintain a market-competitive position and/or achieve property stabilization. Generally, these expenditures have increased as a result of acquisitions, primarily in our seniors housing operating segment.

Financing Activities. The changes in net cash provided from/used in financing activities are primarily attributable to changes related to our long-term debt arrangements, the issuance/redemption of common and preferred stock, and dividend payments. Please refer to Notes 9, 10 and 13 of our unaudited consolidated financial statements for additional information.

Off-Balance Sheet Arrangements

At September 30, 2018, we had investments in unconsolidated entities with our ownership interests ranging from 10% to 50%. Please see Note 7 to our unaudited consolidated financial statements for additional information. We use financial derivative instruments to hedge interest rate and foreign currency exchange rate exposure. Please see Note 11 to our unaudited consolidated financial statements for additional information. At September 30, 2018, we had 13 outstanding letter of credit obligations. Please see Note 12 to our unaudited consolidated financial statements for additional information.

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Contractual Obligations

The following table summarizes our payment requirements under contractual obligations as of September 30, 2018 (in thousands):

	Payments Due by Period				
Contractual Obligations	Total	2018	2019-2020	2021-2022	Thereafter
Unsecured revolving credit facility[1]	$1,312,000	$—	$—	$—	$1,312,000
Senior unsecured notes and term credit facilities:[2]					
U.S. Dollar senior unsecured notes	7,450,000	—	1,050,000	1,050,000	5,350,000
Canadian Dollar senior unsecured notes[3]	232,162	—	232,162	—	—
Pounds Sterling senior unsecured notes[3]	1,370,565	—	—	—	1,370,565
U.S. Dollar term credit facility	507,500	—	7,500	—	500,000
Canadian Dollar term credit facility[3]	193,469	—	—	—	193,469
Secured debt:[2,3]					
Consolidated	2,479,755	170,742	628,104	573,112	1,107,797
Unconsolidated	790,673	17,836	109,404	40,844	622,589
Contractual interest obligations:[4]					
Unsecured revolving credit facility	193,720	10,196	81,566	81,566	20,392
Senior unsecured notes and term loans[3]	4,120,498	152,769	830,571	710,660	2,426,498
Consolidated secured debt[3]	476,489	23,252	155,504	111,191	186,542
Unconsolidated secured debt[3]	214,808	7,612	56,738	48,299	102,159
Capital lease obligations[5]	85,308	1,043	8,346	8,346	67,573
Operating lease obligations[5]	1,107,336	4,507	35,588	34,105	1,033,136
Purchase obligations[5]	343,079	76,741	266,338	—	—
Other long-term liabilities[6]	1,598	369	1,229	—	—
Total contractual obligations	$20,878,960	$465,067	$3,463,050	$2,658,123	$14,292,720

(1) Relates to unsecured revolving credit facility with an aggregate commitment of $3,000,000,000. See Note 9 to our unaudited consolidated financial statements for additional information.
(2) Amounts represent principal amounts due and do not reflect unamortized premiums/discounts or other fair value adjustments as reflected on the balance sheet.
(3) Based on foreign currency exchange rates in effect as of balance sheet date.
(4) Based on variable interest rates in effect as of balance sheet date.
(5) See Note 12 to our unaudited consolidated financial statements for additional information.
(6) Primarily relates to payments to be made under a supplemental executive retirement plan for one former executive officer.

Capital Structure

Please refer to “Credit Strength” above for a discussion of our leverage and coverage ratio trends. Our debt agreements contain various covenants, restrictions and events of default. Certain agreements require us to maintain financial ratios and minimum net worth and impose certain limits on our ability to incur indebtedness, create liens and make investments or acquisitions. As of September 30, 2018, we were in compliance with all of the covenants under our debt agreements. None of our debt agreements contain provisions for acceleration which could be triggered by our debt ratings. However, under our primary unsecured credit facility, the ratings on our senior unsecured notes are used to determine the fees and interest charged. We plan to manage the company to maintain compliance with our debt covenants and with a capital structure consistent with our current profile. Any downgrades in terms of ratings or outlook by any or all of the rating agencies could have a material adverse impact on our cost and availability of capital, which could in turn have a material adverse impact on our consolidated results of operations, liquidity and/or financial condition.

On May 17, 2018, we filed with the Securities and Exchange Commission (1) an open-ended automatic or “universal” shelf registration statement covering an indeterminate amount of future offerings of debt securities, common stock, preferred stock, depositary shares, warrants and units and (2) a registration statement in connection with our enhanced dividend reinvestment plan (“DRIP”) under which we may issue up to 15,000,000 shares of common stock. As of October 25, 2018, 13,309,086 shares of common stock remained available for issuance under the DRIP registration statement. On August 3, 2018 we entered into separate amended and restated equity distribution agreements with each of Morgan Stanley & Co. LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Goldman Sachs & Co. LLC, UBS Securities LLC and Wells Fargo Securities, LLC relating to the offer and sale from time to time of up to $784,083,001 aggregate amount of our common stock (“Equity Shelf Program”). The Equity Shelf Program also allows us to enter into forward sale agreements. We expect that, if entered into, we will physically settle each forward sale agreement on one or more dates on or prior to the maturity date of that particular forward sale agreement, in which case we

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will expect to receive per share cash proceeds at settlement equal to the forward sale price under the relevant forward sale agreement. However, we may also elect to cash settle or net share settle a forward sale agreement. As of October 25, 2018, we had $654,339,000 of remaining capacity under the Equity Shelf Program and there were no outstanding forward sales agreements. Depending upon market conditions, we anticipate issuing securities under our registration statements to invest in additional properties and to repay borrowings under our primary unsecured credit facility.

Results of Operations

Summary

Our primary sources of revenue include rent, resident fees and services and interest income. Our primary expenses include interest expense, depreciation and amortization, property operating expenses, general and administrative expenses and other expenses. We evaluate our business and make resource allocations on our three business segments: triple-net, seniors housing operating and outpatient medical. The primary performance measures for our properties are NOI and SSNOI, which are discussed below. Please see Non-GAAP Financial Measures for additional information and reconciliations. The following is a summary of our results of operations (dollars in thousands, except per share amounts):

	Three Months Ended		Change		Nine Months Ended		Change	
	September 30, 2018	September 30, 2017	Amount	%	September 30, 2018	September 30, 2017	Amount	%
Net income	$84,226	$89,299	$(5,073)	-6 %	$705,054	$630,356	$74,698	12%
NICS	64,384	74,043	(9,659)	-13 %	656,487	575,118	81,369	14%
FFO	285,272	295,722	(10,450)	-4 %	1,017,217	986,352	30,865	3 %
EBITDA	467,148	442,684	24,464	6 %	1,802,072	1,665,488	136,584	8 %
NOI	579,222	567,486	11,736	2 %	1,676,883	1,676,362	521	—%
SSNOI	433,523	439,807	(6,284)	-1 %	1,303,626	1,293,712	9,914	1 %
Per share data (fully diluted):								
NICS	$0.17	$0.20	$(0.03)	-15 %	$1.76	$1.56	$0.20	13%
FFO	$0.76	$0.80	$(0.04)	-5 %	$2.72	$2.68	$0.04	1 %
Interest coverage ratio	3.38 x	3.63 x	(0.25)x	-7 %	4.73 x	4.63 x	0.10 x	2 %
Fixed charge coverage ratio	2.85 x	2.97 x	(0.12)x	-4 %	3.93 x	3.74 x	0.19 x	5 %

Triple-net

The following is a summary of our NOI and SSNOI for the triple-net segment (dollars in thousands):

	Three Months Ended		Change		Nine Months Ended		Change	
	September 30, 2018	September 30, 2017	$	%	September 30, 2018	September 30, 2017	$	%
NOI	$218,684	$244,916	$(26,232)	-11 %	$665,706	$735,998	$(70,292)	-10 %
Non SSNOI attributable to same store properties	(3,734)	(7,232)	3,498	-48 %	(14,075)	(22,689)	8,614	-38 %
NOI attributable to non same store properties[1]	(76,077)	(95,278)	19,201	-20 %	(232,926)	(292,948)	60,022	-20 %
SSNOI[2]	$138,873	$142,406	$(3,533)	-2 %	$418,705	$420,361	$(1,656)	— %

(1) Change is primarily due to the acquisition of 290 properties, the transitioning/restructuring of 27 properties, and the conversion of 13 construction projects into revenue-generating properties subsequent to January 1, 2017 and 20 held for sale properties at September 30, 2018.

(2) Relates to 410 same store properties.

The following is a summary of our results of operations for the triple-net segment (dollars in thousands):

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	Three Months Ended September 30, 2018	September 30, 2017	Change $	%	Nine Months Ended September 30, 2018	September 30, 2017	Change $	%
Revenues:								
Rental income	$203,039	$221,555	$(18,516)	-8 %	$607,831	$666,735	$(58,904)	-9 %
Interest income	14,378	20,187	(5,809)	-29 %	42,176	61,767	(19,591)	-32 %
Other income	1,693	3,174	(1,481)	-47 %	16,282	7,496	8,786	117 %
Total revenues	219,110	244,916	(25,806)	-11 %	666,289	735,998	(69,709)	-9 %
Property operating expenses	426	—	426	n/a	583	—	583	n/a
NOI[(1)]	218,684	244,916	(26,232)	-11 %	665,706	735,998	(70,292)	-10 %
Other expenses:								
Interest expense	3,500	3,622	(122)	-3 %	10,742	11,647	(905)	-8 %
Loss (gain) on derivatives and financial instruments, net	8,991	324	8,667	2,675 %	(5,642)	2,284	(7,926)	n/a
Depreciation and amortization	60,383	62,891	(2,508)	-4 %	171,724	182,672	(10,948)	-6 %
Loss (gain) on extinguishment of debt, net	—	—	—	n/a	(32)	29,083	(29,115)	n/a
Impairment of assets	6,178	—	6,178	n/a	34,482	4,846	29,636	612 %
Other expenses	87,076	89,236	(2,160)	-2 %	89,153	96,425	(7,272)	-8 %
Total other expenses	166,128	156,073	10,055	6 %	300,427	326,957	(26,530)	-8 %
Income from continuing operations before income taxes and income (loss) from unconsolidated entities	52,556	88,843	(36,287)	-41 %	365,279	409,041	(43,762)	-11 %
Income tax (expense) benefit	1,116	(816)	1,932	n/a	(708)	(2,070)	1,362	-66 %
Income (loss) from unconsolidated entities	5,377	5,478	(101)	-2 %	16,260	14,983	1,277	9 %
Income from continuing operations	59,049	93,505	(34,456)	-37 %	380,831	421,954	(41,123)	-10 %
Gain (loss) on real estate dispositions, net	24,782	(185)	24,967	n/a	158,938	273,051	(114,113)	-42 %
Net income	83,831	93,320	(9,489)	-10 %	539,769	695,005	(155,236)	-22 %
Less: Net income (loss) attributable to noncontrolling interests	6,913	1,539	5,374	349 %	10,129	3,112	7,017	225 %
Net income attributable to common stockholders	$76,918	$91,781	$(14,863)	-16 %	$529,640	$691,893	$(162,253)	-23 %

(1) See Non-GAAP Financial Measures.

The decrease in rental income is primarily attributable to the disposition of properties exceeding new acquisitions as well as the reduction in the Genesis annual cash rent obligation due to the restructuring of the master lease as of January 1, 2018. Certain of our leases contain annual rental escalators that are contingent upon changes in the Consumer Price Index and/or changes in the gross operating revenues of the tenant’s properties. These escalators are not fixed, so no straight-line rent is recorded; however, rental income is recorded based on the contractual cash rental payments due for the period. If gross operating revenues at our facilities and/or the Consumer Price Index do not increase, a portion of our revenues may not continue to increase. For the three months ended September 30, 2018, we had 20 leases with rental rate increasers ranging from 0.12% to 0.79% in our triple-net portfolio. The decrease in interest income is primarily related to the volume of loan payoffs during 2017 and 2018. The increase in other income is primarily due to $10,805,000 of net lease termination fees recognized during the three months ended June 30, 2018. Depreciation and amortization decreased primarily as a result of the disposition of triple-net properties exceeding new acquisitions. To the extent that we acquire or dispose of additional properties in the future, our provision for depreciation and amortization will change accordingly.

During the nine months ended September 30, 2018 and 2017, we recorded impairment charges on certain held for sale triple-net properties as the carrying values exceeded the estimated fair value less costs to sell. Changes in the gain on sales of properties are related to the volume of property sales and the sales prices. Transaction costs related to asset acquisitions are capitalized as a component of purchase price. The decrease in other expenses is primarily due to fewer noncapitalizable transaction costs from acquisitions.

During the nine months ended September 30, 2018, we completed two triple-net construction project totaling $90,055,000 or $381,589 per bed/unit. The following is a summary of triple-net construction projects, excluding expansions, pending as of September 30, 2018 (dollars in thousands):

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Location	Units/Beds	Commitment	Balance	Est. Completion
Westerville, OH	90	$ 22,800	$6,759	3Q19
Union, KY	162	34,600	7,150	1Q20
Droitwich , UK	70	16,532	4,035	4Q20
	322	$ 73,932	$17,944	

Interest expense for the nine months ended September 30, 2018 and 2017 represents secured debt interest expense and related fees. The change in interest expense is due to the net effect and timing of assumptions, segment transitions, fluctuations in foreign currency rates, extinguishments and principal amortizations. The fluctuation in loss (gain) on derivatives and financial instruments is primarily attributable to the mark-to-market adjustment recorded on the Genesis HealthCare available-for-sale investment in accordance with the adoption of ASU No. 2016-01 described in Note 2 to our unaudited consolidated financial statements. The fluctuation in losses/gains on debt extinguishment is attributable to the large volume of extinguishments in the first quarter of 2017. The following is a summary of our triple-net secured debt principal activity (dollars in thousands):

	Three Months Ended				Nine Months Ended			
	September 30, 2018		September 30, 2017		September 30, 2018		September 30, 2017	
	Amount	Wtd. Avg. Interest Rate	Amount	Wtd. Avg. Interest Rate	Amount	Wtd. Avg. Interest Rate	Amount	Wtd. Avg. Interest Rate
Beginning balance	$334,033	3.53 %	$345,866	3.53 %	$347,474	3.55 %	$594,199	4.58 %
Debt issued	—	0.00 %	13,000	4.57 %	—	0.00 %	13,000	4.57 %
Debt extinguished	—	0.00 %	—	0.00 %	(4,107)	4.94 %	(255,553)	5.92 %
Debt transferred	(35,830)	3.80 %	—	0.00 %	(35,830)	3.84 %	—	0.00 %
Principal payments	(962)	5.26 %	(1,126)	5.56 %	(3,033)	5.42 %	(4,724)	5.68 %
Foreign currency	(979)	3.51 %	7,707	3.13 %	(8,242)	3.29 %	18,525	2.95 %
Ending balance	$296,262	3.63 %	$365,447	5.55 %	$296,262	3.63 %	$365,447	3.55 %
Monthly averages	$309,920	3.53 %	$358,425	3.56 %	$331,239	3.48 %	$424,583	4.00 %

A portion of our triple-net properties were formed through partnerships. Income or loss from unconsolidated entities represents our share of net income or losses related to unconsolidated investments. Net income attributable to noncontrolling interest represents our partners' share of net income relating to those partnerships where we are the controlling partner.

Seniors Housing Operating

The following is a summary of our NOI and SSNOI for the seniors housing operating segment (dollars in thousands):

	Three Months Ended		Change		Nine Months Ended		Change	
	September 30, 2018	September 30, 2017	$	%	September 30, 2018	September 30, 2017	$	%
NOI	$265,846	$225,100	$40,746	18 %	$730,577	$653,518	$77,059	12 %
Non SSNOI attributable to same store properties	304	288	16	6 %	927	1,162	(235)	-20 %
NOI attributable to non same store properties[1]	(57,534)	(9,311)	(48,223)	518 %	(104,407)	(24,102)	(80,305)	333 %
SSNOI[2]	$208,616	$216,077	$(7,461)	-3 %	$627,097	$630,578	$(3,481)	-1 %

(1) Change is primarily due to the acquisition of 26 properties subsequent to January 1, 2017 and the transition of 78 properties from triple-net to seniors housing operating.
(2) Relates to 399 same store properties.
The following is a summary of our seniors housing operating results of operations (dollars in thousands):

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	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Change $	Change %	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017	Change $	Change %
Revenues:								
Resident fees and services	$875,171	$702,380	$172,791	25 %	$2,374,450	$2,049,757	$324,693	16 %
Interest income	159	—	159	n/a	416	69	347	503 %
Other income	1,175	1,497	(322)	-22 %	3,973	4,005	(32)	-1 %
Total revenues	876,505	703,877	172,628	25 %	2,378,839	2,053,831	325,008	16 %
Property operating expenses	610,659	478,777	131,882	28 %	1,648,262	1,400,313	247,949	18 %
NOI[1]	265,846	225,100	40,746	18 %	730,577	653,518	77,059	12 %
Other expenses:								
Interest expense	17,319	16,369	950	6 %	51,225	47,587	3,638	8 %
Depreciation and amortization	136,532	119,089	17,443	15 %	397,080	356,023	41,057	12 %
Loss (gain) on extinguishment of debt, net	—	—	—	n/a	110	3,414	(3,304)	-97 %
Impairment of assets	562	—	562	n/a	5,075	14,191	(9,116)	-64 %
Other expenses	(811)	5,157	(5,968)	n/a	5,168	8,100	(2,932)	-36 %
Total other expenses	153,602	140,615	12,987	9 %	458,658	429,315	29,343	7 %
Income (loss) from continuing operations before income taxes and income (loss) from unconsolidated entities	112,244	84,485	27,759	33 %	271,919	224,203	47,716	21 %
Income tax benefit (expense)	211	(1,519)	1,730	n/a	(2,244)	9,133	(11,377)	n/a
Income (loss) from unconsolidated entities	(6,705)	(2,886)	(3,819)	132 %	(21,389)	(40,527)	19,138	-47 %
Income from continuing operations	105,750	80,080	25,670	32 %	248,286	192,809	55,477	29 %
Gain (loss) on real estate dispositions, net	(1)	(197)	196	-99 %	3	12,814	(12,811)	-100 %
Net income (loss)	105,749	79,883	25,866	32 %	248,289	205,623	42,666	21 %
Less: Net income (loss) attributable to noncontrolling interests	405	1,008	(603)	-60 %	(1,259)	1,199	(2,458)	n/a
Net income (loss) attributable to common stockholders	$105,344	$78,875	$26,469	34 %	$249,548	$204,424	$45,124	22 %

(1) See Non-GAAP Financial Measures.

Fluctuations in revenues and property operating expenses are primarily a result of acquisitions, segment transitions and the movement of U.S. and foreign currency exchange rates. The fluctuations in depreciation and amortization are due to acquisitions and variations in amortization of short-lived intangible assets. To the extent that we acquire or dispose of additional properties in the future, these amounts will change accordingly.

During the nine months ended September 30, 2018 and 2017, we recorded impairment charges on certain held for sale properties as the carrying value exceeded the estimated fair value less costs to sell. Changes in the gain/loss on sale of properties are related to the volume of property sales and sales prices. Transaction costs related to asset acquisitions are capitalized as a component of purchase price. The decrease in other expenses is primarily due to noncapitalizable transactions costs from acquisitions.

During the nine months ended September 30, 2018, we completed two seniors housing operating construction project representing $86,931,000 or $459,952 per unit. The following is a summary of our seniors housing operating construction projects, excluding expansions, pending as of September 30, 2018 (dollars in thousands):

Location	Units	Commitment	Balance	Est. Completion
Wandsworth, UK	98	$ 76,947	$38,759	1Q20

Interest expense represents secured debt interest expense. The change in secured debt interest expense is primarily due to the net effect and timing of assumptions, extinguishments and principal amortizations. The following is a summary of our seniors housing operating property secured debt principal activity (dollars in thousands):

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	Three Months Ended September 30, 2018		September 30, 2017		Nine Months Ended September 30, 2018		September 30, 2017	
	Amount	Wtd. Avg. Interest Rate	Amount	Wtd. Avg. Interest Rate	Amount	Wtd. Avg. Interest Rate	Amount	Wtd. Avg. Interest Rate
Beginning balance	$1,909,415	3.73 %	$2,040,985	3.56 %	$1,988,700	3.66 %	$2,463,249	3.94 %
Debt transferred	35,830	3.84 %	—	0.00 %	35,830	3.84 %	—	0.00 %
Debt issued	—	0.00 %	15,659	3.46 %	44,606	3.38 %	177,459	2.60 %
Debt assumed	—	0.00 %	—	0.00 %	85,192	4.38 %	—	0.00 %
Debt extinguished	—	0.00 %	(15,449)	2.88 %	(131,175)	4.85 %	(610,403)	4.92 %
Principal payments	(11,908)	3.64 %	(11,857)	3.57 %	(35,910)	3.58 %	(35,008)	3.63 %
Foreign currency	18,204	3.33 %	39,696	3.18 %	(35,702)	3.54 %	73,737	3.26 %
Ending balance	$1,951,541	3.76 %	$2,069,034	3.63 %	$1,951,541	3.76 %	$2,069,034	3.63 %
Monthly averages	$1,934,652	3.74 %	$2,065,572	3.61 %	$1,935,752	3.70 %	$2,082,662	3.66 %

The majority of our seniors housing operating properties are formed through partnership interests. Net income attributable to noncontrolling interests represents our partners' share of net income (loss) related to joint ventures. The fluctuations in income (loss) from unconsolidated entities is primarily due to the recognition of goodwill and intangible asset impairments as well as income tax expense adjustments during the nine month period ended September 30, 2017. During the nine months ended September 30, 2017, we recognized a $7,916,000 deferred tax benefit arising from the basis difference generated by the aforementioned unconsolidated entities' adjustments.

Outpatient Medical

The following is a summary of our NOI and SSNOI for the outpatient medical segment (dollars in thousands):

	Three Months Ended September 30, 2018	September 30, 2017	Change $	%	Nine Months Ended September 30, 2018	September 30, 2017	Change $	%
NOI	$93,997	$96,772	$(2,775)	-3 %	$279,039	$285,675	$(6,636)	-2 %
Non SSNOI on same store properties	(1,061)	(1,451)	390	-27 %	(2,841)	(5,594)	2,753	-49 %
NOI attributable to non same store properties(1)	(6,902)	(13,997)	7,095	-51 %	(18,374)	(37,308)	18,934	-51 %
SSNOI(2)	$86,034	$81,324	$4,710	6 %	$257,824	$242,773	$15,051	6 %

(1) Change is primarily due to acquisitions of 19 properties and the conversion of 11 construction projects into revenue-generating properties subsequent to January 1, 2017.
(2) Relates to 219 same store properties.

The following is a summary of our results of operations for the outpatient medical segment (dollars in thousands):

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	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Change $	Change %	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017	Change $	Change %
Revenues:								
Rental income	$139,848	$141,325	$(1,477)	-1 %	$412,026	$418,886	$(6,860)	-2 %
Interest income	85	—	85	n/a	140	—	140	n/a
Other income	136	667	(531)	-80 %	401	2,497	(2,096)	-84 %
Total revenues	140,069	141,992	(1,923)	-1 %	412,567	421,383	(8,816)	-2 %
Property operating expenses	46,072	45,220	852	2 %	133,528	135,708	(2,180)	-2 %
NOI(1)	93,997	96,772	(2,775)	-3 %	279,039	285,675	(6,636)	-2 %
Other expenses:								
Interest expense	1,643	2,929	(1,286)	-44 %	4,975	7,342	(2,367)	-32 %
Depreciation and amortization	46,234	48,158	(1,924)	-4 %	138,821	144,567	(5,746)	-4 %
Impairment of assets	—	—	—	n/a	—	5,625	(5,625)	-100 %
Loss (gain) on extinguishment of debt, net	—	—	—	n/a	11,928	4,373	7,555	173 %
Other expenses	1,055	530	525	99 %	3,748	2,201	1,547	70 %
Total other expenses	48,932	51,617	(2,685)	-5 %	159,472	164,108	(4,636)	-3 %
Income (loss) from continuing operations before income taxes and income (loss) from unconsolidated entities	45,065	45,155	(90)	— %	119,567	121,567	(2,000)	-2 %
Income tax (expense) benefit	239	(366)	605	n/a	(567)	(655)	88	-13 %
Income from unconsolidated entities	1,672	816	856	105 %	4,293	1,868	2,425	130 %
Income from continuing operations	46,976	45,605	1,371	3 %	123,293	122,780	513	— %
Gain (loss) on real estate dispositions, net	(58)	2,004	(2,062)	n/a	214,721	2,004	212,717	10,615 %
Net income (loss)	46,918	47,609	(691)	-1 %	338,014	124,784	213,230	171 %
Less: Net income (loss) attributable to noncontrolling interests	848	1,032	(184)	-18 %	4,669	3,424	1,245	36 %
Net income (loss) attributable to common stockholders	$46,070	$46,577	$(507)	-1 %	$333,345	$121,360	$211,985	175 %

(1) See Non-GAAP Financial Measures.

The decrease in rental income is primarily attributable to dispositions partially offset by the acquisitions of new properties and the conversion of newly constructed outpatient medical properties from which we receive rent. Certain of our leases contain annual rental escalators that are contingent upon changes in the Consumer Price Index. These escalators are not fixed, so no straight-line rent is recorded; however, rental income is recorded based on the contractual cash rental payments due for the period. If the Consumer Price Index does not increase, a portion of our revenues may not continue to increase. Sales of real property would offset revenue increases and, to the extent that they exceed new acquisitions, could result in decreased revenues. Our leases could renew above or below current rental rates, resulting in an increase or decrease in rental income. For the three months ended September 30, 2018, our consolidated outpatient medical portfolio signed 105,716 square feet of new leases and 190,465 square feet of renewals. The weighted-average term of these leases was six years, with a rate of $36.76 per square foot and tenant improvement and lease commission costs of $28.38 per square foot. Substantially all of these leases contain an annual fixed or contingent escalation rent structure ranging from 1.9% to 4.0%.

The fluctuation in property operating expenses is primarily attributable to dispositions partially offset by acquisitions and construction conversions of new outpatient medical facilities for which we incur certain property operating expenses. The fluctuations in depreciation and amortization are primarily due to dispositions and variations in amortization of short-lived intangible assets. To the extent that we acquire or dispose of additional properties in the future, these amounts will change accordingly. During the nine months ended September 30, 2017, we recorded impairment charges related to certain held for sale properties as the carrying values exceeded the estimated fair values less costs to sell. Changes in the gain/loss on sale of properties are related to the volume of property sales and sales prices.

During the nine months ended September 30, 2018, we completed one outpatient medical construction project representing $11,358,000 or $296 per square foot. The following is a summary of the outpatient medical construction projects, excluding expansions, pending as of September 30, 2018 (dollars in thousands):

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Location	Square Feet	Commitment	Balance	Est. Completion
Brooklyn, NY	140,955	$ 105,177	$54,454	3Q19
Houston, TX	73,500	23,455	3,399	4Q19
Total	214,455	$ 128,632	$57,853	

Total interest expense represents secured debt interest expense. The change in secured debt interest expense is primarily due to the net effect and timing of assumptions, extinguishments and principal amortizations. The fluctuation in losses/gains on debt extinguishment is primarily attributable to the prepayment penalties paid on certain extinguishments in the first quarter of 2018. The following is a summary of our outpatient medical secured debt principal activity (dollars in thousands):

	Three Months Ended				Nine Months Ended			
	September 30, 2018		September 30, 2017		September 30, 2018		September 30, 2017	
	Amount	Wtd. Ave Interest Rate	Amount	Wtd. Ave Interest Rate	Amount	Wtd. Ave Interest Rate	Amount	Wtd. Ave Interest Rate
Beginning balance	$217,007	4.35 %	$284,918	4.62 %	$279,951	4.72 %	$404,079	4.85 %
Debt assumed	14,360	3.80 %	—	0.00 %	14,360	3.80 %	23,094	6.67 %
Debt extinguished	—	0.00 %	—	0.00 %	(61,291)	7.43 %	(137,416)	5.99 %
Principal payments	(702)	5.90 %	(2,000)	6.63 %	(2,355)	6.02 %	(6,839)	6.76 %
Ending balance	$230,665	4.19 %	$282,918	4.69 %	$230,665	4.19 %	$282,918	4.69 %
Monthly averages	$220,246	4.22 %	$283,885	4.68 %	$224,943	4.26 %	$298,933	4.61 %

A portion of our outpatient medical properties were formed through partnerships. Income or loss from unconsolidated entities represents our share of net income or losses related to certain unconsolidated property investments. Net income attributable to noncontrolling interests represents our partners' share of net income relating to those partnerships where we are the controlling partner.

Non-Segment/Corporate

The following is a summary of our results of operations for the non-segment/corporate activities (dollars in thousands):

	Three Months Ended		Change		Nine Months Ended		Change	
	September 30, 2018	September 30, 2017	$	%	September 30, 2018	September 30, 2017	$	%
Revenues:								
Other income	$695	$698	$(3)	— %	$1,561	$1,171	$390	33 %
Expenses:								
Interest expense	115,570	99,658	15,912	16 %	315,281	290,829	24,452	8 %
General and administrative	28,746	29,913	(1,167)	-4 %	95,282	93,643	1,639	2 %
Loss (gain) on extinguishment of debt, net	4,038	—	4,038	n/a	4,038	—	4,038	n/a
Other expenses	1,306	4,672	(3,366)	-72 %	4,327	10,882	(6,555)	-60 %
Total expenses	149,660	134,243	15,417	11 %	418,928	395,354	23,574	6 %
Loss from continuing operations before income taxes	(148,965)	(133,545)	(15,420)	12 %	(417,367)	(394,183)	(23,184)	6 %

Income tax (expense) benefit	(3,307)	2,032	(5,339)	n/a	(3,651)	(873)	(2,778)	318 %
Loss from continuing operations	(152,272)	(131,513)	(20,759)	16 %	(421,018)	(395,056)	(25,962)	7 %
Less: Preferred stock dividends	11,676	11,676	—	— %	35,028	37,734	(2,706)	-7 %
Less: Preferred stock redemption charge	—	—	—	n/a	—	9,769	(9,769)	-100 %
Net loss attributable to common stockholders	$(163,948)	$(143,189)	$(20,759)	14 %	$(456,046)	$(442,559)	$(13,487)	3 %

The following is a summary of our non-segment/corporate interest expense (dollars in thousands):

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	Three Months Ended		Change		Nine Months Ended		Change	
	September 30, 2018	September 30, 2017	$	%	September 30, 2018	September 30, 2017	$	%
Senior unsecured notes	$99,445	$ 92,296	$7,149	8 %	$282,847	$267,444	$15,403	6 %
Secured debt	26	49	(23)	-47 %	96	164	(68)	-41 %
Primary unsecured credit facility	12,662	3,906	8,756	224 %	22,442	13,179	9,263	70 %
Loan expense	3,437	3,407	30	1 %	9,896	10,042	(146)	-1 %
Totals	$115,570	$ 99,658	$15,912	16 %	$315,281	$290,829	$24,452	8 %

The change in interest expense on senior unsecured notes is primarily due to the net effect of issuances and extinguishments, as well as the movement of foreign exchange rates and related hedge activity. Loan expense represents the amortization of deferred loan costs incurred in connection with the issuance and amendments of debt. Loan expense changes are due to amortization of charges for costs incurred in connection with senior unsecured note issuances. The change in interest expense on the primary unsecured credit facility is due primarily to the net effect and timing of draws, paydowns and variable interest rate changes. Please refer to Note 9 of our unaudited consolidated financial statements for additional information regarding our primary unsecured credit facility.

General and administrative expenses as a percentage of consolidated revenues for the three months ended September 30, 2018 and 2017 were 2.33% and 2.74%, respectively. Other expenses primarily represent severance-related costs associated with the departure of certain executive officers and key employees.

The decrease in preferred dividends and the preferred stock redemption charge are due to the redemption of our 6.5% Series J preferred stock during 2017.

Other

Non-GAAP Financial Measures

We believe that net income and net income attributable to common stockholders (“NICS”), as defined by U.S. GAAP, are the most appropriate earnings measurements. However, we consider FFO, NOI, SSNOI, EBITDA and Adjusted EBITDA to be useful supplemental measures of our operating performance. Historical cost accounting for real estate assets in accordance with U.S. GAAP implicitly assumes that the value of real estate assets diminishes predictably over time as evidenced by the provision for depreciation. However, since real estate values have historically risen or fallen with market conditions, many industry investors and analysts have considered presentations of operating results for real estate companies that use historical cost accounting to be insufficient. In response, the National Association of Real Estate Investment Trusts (“NAREIT”) created funds from operations attributable to common stockholders (“FFO”) as a supplemental measure of operating performance for REITs that excludes historical cost depreciation from net income. FFO, as defined by NAREIT, means NICS, computed in accordance with U.S. GAAP, excluding gains (or losses) from sales of real estate and impairment of depreciable assets, plus depreciation and amortization, and after adjustments for unconsolidated entities and noncontrolling interests.

Consolidated net operating income (“NOI”) is used to evaluate the operating performance of our properties. We define NOI as total revenues, including tenant reimbursements, less property operating expenses. Property operating expenses represent costs associated with managing, maintaining and servicing tenants for our seniors housing operating and medical facility properties. These expenses include, but are not limited to, property-related payroll and benefits, property management fees paid to operators, marketing, housekeeping, food service, maintenance, utilities, property taxes and insurance. General and administrative expenses represent costs unrelated to property operations. These expenses include, but are not limited to, payroll and benefits, professional services, office expenses and depreciation of corporate fixed assets. Same store NOI (“SSNOI”) is used to evaluate the operating performance of our properties under a consistent population which eliminates changes in the composition of our portfolio. As used herein, same store is generally defined as those revenue-generating properties in the portfolio for the reporting period subsequent to January 1, 2017. Land parcels, loans, and sub-leases as well as any properties acquired, developed/redeveloped, transitioned, sold or classified as held for sale during that period are excluded from the same store amounts. We believe NOI and SSNOI provide investors relevant and useful information because they measure the operating performance of our properties at the property level on an unleveraged basis. We use NOI and SSNOI to make decisions about resource allocations and to assess the property level performance of our properties.

EBITDA stands for earnings (net income) before interest, taxes, depreciation and amortization. We believe that EBITDA, along with net income and cash flow provided from operating activities, is an important supplemental measure because it provides additional information to assess and evaluate the performance of our operations. We primarily utilize EBITDA to measure our interest coverage ratio, which represents EBITDA divided by total interest, and our fixed charge coverage ratio, which represents EBITDA divided by fixed charges. Fixed charges include total interest, secured debt principal amortization and preferred dividends.

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Covenants in our senior unsecured notes contain financial ratios based on a definition of EBITDA that is specific to those agreements. Failure to satisfy these covenants could result in an event of default that could have a material adverse impact on our cost and availability of capital, which could in turn have a material adverse impact on our consolidated results of operations, liquidity and/or financial condition. Due to the materiality of these debt agreements and the financial covenants, we have disclosed Adjusted EBITDA, which represents EBITDA as defined above excluding unconsolidated entities and adjusted for items per our covenant. We use Adjusted EBITDA to measure our adjusted fixed charge coverage ratio, which represents Adjusted EBITDA divided by fixed charges on a trailing twelve months basis. Fixed charges include total interest (excluding capitalized interest and non-cash interest expenses), secured debt principal amortization and preferred dividends. Our covenant requires an adjusted fixed charge coverage ratio of at least 1.50 times.

Our supplemental reporting measures and similarly entitled financial measures are widely used by investors, equity and debt analysts and rating agencies in the valuation, comparison, rating and investment recommendations of companies. Management uses these financial measures to facilitate internal and external comparisons to our historical operating results and in making operating decisions. Additionally, these measures are utilized by the Board of Directors to evaluate management. None of our supplemental measures represent net income or cash flow provided from operating activities as determined in accordance with U.S. GAAP and should not be considered as alternative measures of profitability or liquidity. Finally, the supplemental measures, as defined by us, may not be comparable to similarly entitled items reported by other real estate investment trusts or other companies.

The following tables reflect the reconciliations of NOI and SSNOI to net income, the most directly comparable U.S. GAAP measure, for the periods presented. Dollars are in thousands.

	Three Months Ended						
	March 31,	June 30,	September 30,	December 31,	March 31,	June 30,	September 30,
NOI Reconciliations:	2017	2017	2017	2017	2018	2018	2018
Net income (loss)	$337,610	$203,441	$89,299	$(89,743)	$453,555	$167,273	$84,226
Loss (gain) on real estate dispositions, net	(244,092)	(42,155)	(1,622)	(56,381)	(338,184)	(10,755)	(24,723)
Loss (income) from unconsolidated entities	23,106	3,978	(3,408)	59,449	2,429	(1,249)	(344)
Income tax expense (benefit)	2,245	(8,448)	669	25,663	1,588	3,841	1,741
Other expenses	11,675	6,339	99,595	60,167	3,712	10,058	88,626
Impairment of assets	11,031	13,631	—	99,821	28,185	4,632	6,740
Provision for loan losses	—	—	—	62,966	—	—	—
Loss (gain) on extinguishment of debt, net	31,356	5,515	—	371	11,707	299	4,038
Loss (gain) on derivatives and financial instruments, net	1,224	736	324	—	(7,173)	(7,460)	8,991
General and administrative expenses	31,101	32,632	29,913	28,365	33,705	32,831	28,746
Depreciation and amortization	228,276	224,847	230,138	238,458	228,201	236,275	243,149
Interest expense	118,597	116,231	122,578	127,217	122,775	121,416	138,032
Consolidated net operating income (NOI)	$552,129	$556,747	$567,486	$556,353	$540,500	$557,161	$579,222
NOI by segment:							
Triple-net	$249,735	$241,347	$244,916	$231,083	$222,738	$224,284	$218,684
Seniors housing operating	209,442	218,978	225,100	226,509	225,226	239,505	265,846
Outpatient medical	92,719	96,183	96,772	98,393	92,168	92,874	93,997
Non-segment/corporate	233	239	698	368	368	498	695

Total NOI	$552,129	$556,747	$567,486	$556,353	$540,500	$557,161	$579,222

	Nine Months Ended September 30, 2017	September 30, 2018
NOI Reconciliations:		
Net income (loss)	$630,356	$705,054
Loss (gain) on real estate dispositions, net	(287,869)	(373,662)
Loss (income) from unconsolidated entities	23,676	836
Income tax expense (benefit)	(5,535)	7,170
Other expenses	117,608	102,396
Impairment of assets	24,662	39,557
Loss (gain) on extinguishment of debt, net	36,870	16,044
Loss (gain) on derivatives and financial instruments, net	2,284	(5,642)
General and administrative expenses	93,643	95,282
Depreciation and amortization	683,262	707,625
Interest expense	357,405	382,223
Consolidated net operating income (NOI)	$1,676,362	$1,676,883
NOI by segment:		
Triple-net	$735,998	$665,706
Seniors housing operating	653,518	730,577
Outpatient medical	285,675	279,039
Non-segment/corporate	1,171	1,561
Total NOI	$1,676,362	$1,676,883

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		Three Months Ended						
SSNOI Reconciliations:		March 31, 2017	June 30, 2017	September 30, 2017	December 31, 2017	March 31, 2018	June 30, 2018	September 30, 2018
NOI:								
Triple-net		$249,735	$241,347	$244,916	$231,083	$222,738	$224,284	$218,684
Seniors housing operating		209,442	218,978	225,100	226,509	225,226	239,505	265,846
Outpatient medical		92,719	96,183	96,772	98,393	92,168	92,874	93,997
Total		551,896	556,508	566,788	555,985	540,132	556,663	578,527
Adjustments:								
Triple-net:								
Non SSNOI on same store properties		(8,152)	(7,305)	(7,232)	(6,821)	(7,959)	(2,382)	(3,734)
NOI attributable to non same store properties		(103,340)	(94,330)	(95,278)	(83,614)	(77,078)	(79,771)	(76,077)
Subtotal		(111,492)	(101,635)	(102,510)	(90,435)	(85,037)	(82,153)	(79,811)
Seniors housing operating:								
Non SSNOI on same store properties		316	558	288	424	312	311	304
NOI attributable to non same store properties		(7,218)	(7,573)	(9,311)	(14,913)	(17,953)	(28,920)	(57,534)
Subtotal		(6,902)	(7,015)	(9,023)	(14,489)	(17,641)	(28,609)	(57,230)
Outpatient medical:								
Non SSNOI on same store properties		(1,828)	(2,315)	(1,451)	(1,743)	(886)	(894)	(1,061)
NOI attributable to non same store properties		(10,346)	(12,965)	(13,997)	(14,564)	(5,168)	(6,304)	(6,902)
Subtotal		(12,174)	(15,280)	(15,448)	(16,307)	(6,054)	(7,198)	(7,963)
SSNOI:	Properties							
Triple-net	410	138,243	139,712	142,406	140,648	137,701	142,131	138,873
Seniors housing operating	399	202,540	211,963	216,077	212,020	207,585	210,896	208,616
Outpatient medical	219	80,545	80,903	81,324	82,086	86,114	85,676	86,034
Total	1,028	$421,328	$432,578	$439,807	$434,754	$431,400	$438,703	$433,523
SSNOI Property Reconciliation:								
Total properties	1,529							
Acquisitions	(335)							
Developments	(26)							
Held for sale	(39)							
Transitions/restructurings	(93)							
Other[1]	(8)							
Same store properties	1,028							

(1) Includes seven land parcels and one loan.

	Nine Months Ended	
SSNOI Reconciliations:	September 30, 2017	September 30, 2018
NOI:		
Triple-net	$735,998	$665,706

Seniors housing operating		653,518	730,577
Outpatient medical		285,675	279,039
Total		1,675,191	1,675,322
Adjustments:			
Triple-net:			
Non SSNOI on same store properties		(22,689)	(14,075)
NOI attributable to non same store properties		(292,948)	(232,926)
Subtotal		(315,637)	(247,001)
Seniors housing operating:			
Non SSNOI on same store properties		1,162	927
NOI attributable to non same store properties		(24,102)	(104,407)
Subtotal		(22,940)	(103,480)
Outpatient medical:			
Non SSNOI on same store properties		(5,594)	(2,841)
NOI attributable to non same store properties		(37,308)	(18,374)
Subtotal		(42,902)	(21,215)
SSNOI:	Properties		
Triple-net	410	420,361	418,705
Seniors housing operating	399	630,578	627,097
Outpatient medical	219	242,773	257,824
Total	1,028	$1,293,712	$1,303,626

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The table below reflects the reconciliation of FFO to NICS, the most directly comparable U.S. GAAP measure, for the periods presented. Noncontrolling interest and unconsolidated entity amounts represent adjustments to reflect our share of depreciation and amortization. Amounts are in thousands except for per share data.

	Three Months Ended						
	March 31,	June 30,	September 30,	December 31,	March 31,	June 30,	September 30,
FFO Reconciliations:	2017	2017	2017	2017	2018	2018	2018
NICS	$312,639	$188,429	$74,043	$(111,523)	$437,671	$154,432	$64,384
Depreciation and amortization	228,276	224,847	230,138	238,458	228,201	236,275	243,149
Impairment of assets	11,031	13,631	—	99,821	28,185	4,632	6,740
Loss (gain) on real estate dispositions, net	(244,092)	(42,155)	(1,622)	(56,381)	(338,184)	(10,755)	(24,723)
Noncontrolling interests	(18,107)	(16,955)	(16,826)	(8,131)	(16,353)	(17,692)	(17,498)
Unconsolidated entities	16,484	16,593	9,989	16,980	13,700	11,833	13,220
FFO	$306,231	$384,390	$295,722	$179,224	$353,220	$378,725	$285,272
Average common shares outstanding:							
Basic	362,534	366,524	369,089	370,485	371,426	371,640	373,023
Diluted for NICS purposes	364,652	368,149	370,740	370,485	373,257	373,075	374,487
Diluted for FFO purposes	364,652	368,149	370,740	372,145	373,257	373,075	374,487
Per share data:							
NICS							
Basic	$0.86	$0.51	$0.20	$(0.30)	$1.18	$0.42	$0.17
Diluted	0.86	0.51	0.20	(0.30)	1.17	0.41	0.17
FFO							
Basic	$0.84	$1.05	$0.80	$0.48	$0.95	$1.02	$0.76
Diluted	0.84	1.04	0.80	0.48	0.95	1.02	0.76

	Nine Months Ended	
	September 30,	September 30,
FFO Reconciliations:	2017	2018
NICS	$575,118	$656,487
Depreciation and amortization	683,262	707,625
Impairment of assets	24,662	39,557
Loss (gain) on real estate dispositions, net	(287,869)	(373,662)
Noncontrolling interests	(51,887)	(51,543)
Unconsolidated entities	43,066	38,753
FFO	$986,352	$1,017,217
Average common shares outstanding:		
Basic	366,096	372,052
Diluted	367,894	373,638
Per share data:		
NICS		
Basic	$1.57	$1.76

Diluted	1.56	1.76
FFO		
Basic	$2.69	$2.73
Diluted	2.68	2.72

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The table below reflects the reconciliation of EBITDA to net income, the most directly comparable U.S. GAAP measure, for the periods presented. Dollars are in thousands.

	Three Months Ended						
	March 31,	June 30,	September 30,	December 31,	March 31,	June 30,	September 30,
EBITDA Reconciliations:	2017	2017	2017	2017	2018	2018	2018
Net income (loss)	$337,610	$203,441	$89,299	$(89,743)	$453,555	$167,273	$84,226
Interest expense	118,597	116,231	122,578	127,217	122,775	121,416	138,032
Income tax expense (benefit)	2,245	(8,448)	669	25,663	1,588	3,841	1,741
Depreciation and amortization	228,276	224,847	230,138	238,458	228,201	236,275	243,149
EBITDA	$686,728	$536,071	$442,684	$301,595	$806,119	$528,805	$467,148
Interest Coverage Ratio:							
Interest expense	$118,597	$116,231	$122,578	$127,217	$122,775	$121,416	$138,032
Non-cash interest expense	(1,679)	(2,946)	(3,199)	(2,534)	(4,179)	(1,716)	(1,658)
Capitalized interest	4,129	3,358	2,545	3,456	2,336	2,100	1,921
Total interest	121,047	116,643	121,924	128,139	120,932	121,800	138,295
EBITDA	$686,728	$536,071	$442,684	$301,595	$806,119	$528,805	$467,148
Interest coverage ratio	5.67 x	4.60 x	3.63 x	2.35 x	6.67 x	4.34 x	3.38 x
Fixed Charge Coverage Ratio:							
Total interest	$121,047	$116,643	$121,924	$128,139	$120,932	$121,800	$138,295
Secured debt principal payments	16,249	15,958	15,300	16,572	14,247	14,139	13,908
Preferred dividends	14,379	11,680	11,676	11,676	11,676	11,676	11,676
Total fixed charges	151,675	144,281	148,900	156,387	146,855	147,615	163,879
EBITDA	$686,728	$536,071	$442,684	$301,595	$806,119	$528,805	$467,148
Fixed charge coverage ratio	4.53 x	3.72 x	2.97 x	1.93 x	5.49 x	3.58 x	2.85 x

	Nine Months Ended	
	September 30,	September 30,
EBITDA Reconciliations:	2017	2018
Net income (loss)	$630,356	$705,054
Interest expense	357,405	382,223
Income tax expense (benefit)	(5,535)	7,170
Depreciation and amortization	683,262	707,625
EBITDA	$1,665,488	$1,802,072
Interest Coverage Ratio:		
Interest expense	$357,405	$382,223
Non-cash interest expense	(7,825)	(7,553)
Capitalized interest	10,033	6,357
Total interest	359,613	381,027
EBITDA	$1,665,488	$1,802,072
Interest coverage ratio	4.63 x	4.73 x
Fixed Charge Coverage Ratio:		
Total interest	$359,613	$381,027
Secured debt principal payments	47,507	42,294

Preferred dividends	37,734		35,028	
Total fixed charges	444,854		458,349	
EBITDA	$1,665,488		$1,802,072	
Fixed charge coverage ratio	3.74	x	3.93	x

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The table below reflects the reconciliation of Adjusted EBITDA to net income, the most directly comparable U.S. GAAP measure, for the periods presented. Dollars are in thousands.

	Twelve Months Ended						
Adjusted EBITDA	March 31,	June 30,	September 30,	December 31,	March 31,	June 30,	September 30,
Reconciliations:	2017	2017	2017	2017	2018	2018	2018
Net income	$1,254,208	$1,246,899	$981,458	$540,613	$656,551	$620,384	$615,311
Interest expense	506,982	490,886	483,765	484,622	488,800	493,986	509,440
Income tax expense (benefit)	(15,158)	(23,093)	(22,119)	20,128	19,471	31,761	32,833
Depreciation and amortization	900,822	899,100	911,180	921,720	921,645	933,072	946,083
EBITDA	2,646,854	2,613,792	2,354,284	1,967,083	2,086,467	2,079,203	2,103,667
Loss (income) from unconsolidated entities	29,643	31,662	26,505	83,125	62,448	57,221	60,285
Transaction costs	34,702	29,545	9,704	—	—	—	—
Stock-based compensation expense(1)	25,588	23,321	24,710	19,102	25,753	26,158	25,443
Loss (gain) on extinguishment of debt, net	48,593	54,074	54,074	37,241	17,593	12,377	16,415
Loss (gain) on real estate dispositions, net	(608,139)	(648,763)	(488,034)	(344,250)	(438,342)	(406,942)	(430,043)
Impairment of assets	33,923	47,554	37,849	124,483	141,637	132,638	139,378
Provision for loan losses	10,215	10,215	10,215	62,966	62,966	62,966	62,966
Loss (gain) on derivatives and financial instruments, net	(1,225)	(489)	2,351	2,284	(6,113)	(14,309)	(5,642)
Other expenses(1)	19,396	23,997	122,211	176,395	167,524	171,243	161,655
Additional other income	(16,664)	(4,853)	(4,853)	—	—	(10,805)	(10,805)
Adjusted EBITDA	$2,222,886	$2,180,055	$2,149,016	$2,128,429	$2,119,933	$2,109,750	$2,123,319
Adjusted Fixed Charge Coverage Ratio:							
Interest expense	$506,982	$490,886	$483,765	$484,622	$488,800	$493,986	$509,440
Capitalized interest	18,035	17,087	14,866	13,489	11,696	10,437	9,813
Non-cash interest expense	(3,958)	(5,386)	(8,041)	(10,359)	(12,858)	(11,628)	(10,087)
Total interest	521,059	502,587	490,590	487,752	487,638	492,795	509,166
Adjusted EBITDA	$2,222,886	$2,180,055	$2,149,016	$2,128,429	$2,119,933	$2,109,750	$2,123,319
	4.27x	4.34x	4.38x	4.36x	4.35x	4.28x	4.17x

Adjusted interest coverage ratio							
Total interest	$521,059	$502,587	$490,590	$487,752	$487,638	$492,795	$509,166
Secured debt principal payments	72,073	68,935	66,084	64,078	62,077	60,258	58,866
Preferred dividends	63,434	58,762	54,086	49,410	46,707	46,704	46,704
Total fixed charges	656,566	630,284	610,760	601,240	596,422	599,757	614,736
Adjusted EBITDA	$2,222,886	$2,180,055	$2,149,016	$2,128,429	$2,119,933	$2,109,750	$2,123,319
Adjusted fixed charge coverage ratio	3.39 x	3.46 x	3.52 x	3.54 x	3.55 x	3.52 x	3.45 x

(1) Certain severance-related costs are included in stock-based compensation and excluded from other expenses.

Our leverage ratios include book capitalization, undepreciated book capitalization and market capitalization. Book capitalization represents the sum of net debt (defined as total long-term debt less cash and cash equivalents and any IRC Section 1031 deposits), total equity and redeemable noncontrolling interests. Undepreciated book capitalization represents book capitalization adjusted for accumulated depreciation and amortization. Market capitalization represents book capitalization adjusted for the fair market value of our common stock. Our leverage ratios are defined as the proportion of net debt to total capitalization. The table below reflects the reconciliation of our leverage ratios to our balance sheets for the periods presented. Amounts are in thousands, except share price.

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	As of March 31, 2017	June 30, 2017	September 30, 2017	December 31, 2017	March 31, 2018	June 30, 2018	September 30 2018
Book capitalization:							
Borrowings under primary unsecured credit facility	$522,000	$385,000	$420,000	$719,000	$865,000	$540,000	$1,312,000
Long-term debt obligations(1)	10,932,185	10,994,946	11,101,592	11,012,936	10,484,840	10,895,559	12,192,060
Cash & cash equivalents(2)	(380,360)	(442,284)	(250,776)	(249,620)	(202,824)	(215,120)	(191,199)
Total net debt	11,073,825	10,937,662	11,270,816	11,482,316	11,147,016	11,220,439	13,312,861
Total equity and noncontrolling interests(3)	15,495,681	15,702,399	15,631,412	15,300,646	15,448,201	15,198,644	15,670,065
Book capitalization	$26,569,506	$26,640,061	$26,902,228	$26,782,962	$26,595,217	$26,419,083	$28,982,926
Net debt to book capitalization ratio	42%	41%	42%	43%	42%	42%	46%
Undepreciated book capitalization:							
Total net debt	$11,073,825	$10,937,662	$11,270,816	$11,482,316	$11,147,016	$11,220,439	$13,312,861
Accumulated depreciation and amortization	4,335,160	4,568,408	4,826,418	4,838,370	4,990,780	5,113,928	5,394,274
Total equity and noncontrolling interests(3)	15,495,681	15,702,399	15,631,412	15,300,646	15,448,201	15,198,644	15,670,065
Undepreciated book capitalization	$30,904,666	$31,208,469	$31,728,646	$31,621,332	$31,585,997	$31,533,011	$34,377,200
Net debt to undepreciated book capitalization ratio	36%	35%	36%	36%	35%	36%	39%
Market capitalization:							

Common shares outstanding	364,564	368,878	370,342	371,732	371,971	372,030	375,577
Period end share price	$70.82	$74.85	$70.28	$63.77	$54.43	$62.69	$64.32
Common equity market capitalization	$25,818,422	$27,610,518	$26,027,636	$23,705,350	$20,246,382	$23,322,561	$24,157,113
Total net debt	11,073,825	10,937,662	11,270,816	11,482,316	11,147,016	11,220,439	13,312,861
Noncontrolling interests(3)	859,478	873,567	901,487	877,499	889,766	856,721	1,362,380
Preferred stock	718,750	718,750	718,503	718,503	718,498	718,498	718,498
Enterprise value	$38,470,475	$40,140,497	$38,918,442	$36,783,668	$33,001,662	$36,118,219	$39,550,852
Net debt to market capitalization ratio	29 %	27 %	29 %	31 %	34 %	31 %	34 %

(1) Amounts include senior unsecured notes, secured debt and capital lease obligations as reflected on our Consolidated Balance Sheet.
(2) Inclusive of IRC Section 1031 deposits, if any.
(3) Includes all noncontrolling interests (redeemable and permanent) as reflected on our consolidated balance sheet.

Critical Accounting Policies

Our unaudited consolidated financial statements are prepared in accordance with U.S. GAAP, which requires us to make estimates and assumptions. Management considers an accounting estimate or assumption critical if:

- the nature of the estimates or assumptions is material due to the levels of subjectivity and judgment necessary to account for highly uncertain matters or the susceptibility of such matters to change; and
- the impact of the estimates and assumptions on financial condition or operating performance is material.

Management has discussed the development and selection of its critical accounting policies with the Audit Committee of the Board of Directors. Management believes the current assumptions and other considerations used to estimate amounts reflected in our unaudited consolidated financial statements are appropriate and are not reasonably likely to change in the future. However, since these estimates require assumptions to be made that were uncertain at the time the estimate was made, they bear the risk of change. If actual experience differs from the assumptions and other considerations used in estimating amounts reflected in our unaudited consolidated financial statements, the resulting changes could have a material adverse effect on our consolidated results of operations, liquidity and/or financial condition. Please refer to Note 2 to the financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2017 for further information regarding significant accounting policies that impact us. There have been no material changes to these policies in 2018.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Cautionary Statement Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q may contain “forward-looking” statements as defined in the Private Securities Litigation Reform Act of 1995. When the company uses words such as “may,” “will,” “intend,” “should,” “believe,” “expect,” “anticipate,” “project,” “estimate” or similar expressions that do not relate solely to historical matters, it is making forward-looking statements. In particular, these forward-looking statements include, but are not limited to, those relating to the company’s opportunities to acquire, develop or sell properties; the company’s ability to close its anticipated acquisitions, investments or dispositions on currently anticipated terms or within currently anticipated timeframes; the expected performance of the company’s operators/tenants and properties; the company’s expected occupancy rates; the company’s ability to declare and to make distributions to shareholders; the company’s investment and financing opportunities and plans; the company’s continued qualification as a real estate investment trust (“REIT”); the company’s ability to access capital markets or other sources of funds; and the company’s ability to meet its earnings guidance. Forward-looking statements are not guarantees of future performance and involve risks and uncertainties that may cause the company’s actual results to differ materially from the company’s expectations discussed in the forward-looking statements. This may be a result of various factors, including, but not limited to: the status of the economy; the status of capital markets, including availability and cost of capital; issues facing the health care industry, including compliance with, and changes to, regulations and payment policies, responding to government investigations and punitive settlements and operators’/tenants’ difficulty in cost-effectively obtaining and maintaining adequate liability and other insurance; changes in financing terms; competition within the health care and seniors housing industries; negative developments in the operating results or financial condition of operators/tenants, including, but not limited to, their ability to pay rent and repay loans; the company’s ability to transition or sell properties with profitable results; the failure to make new investments or acquisitions as and when anticipated; natural disasters and other acts of God affecting the company’s properties; the company’s ability to re-lease space at similar rates as vacancies occur; the company’s ability to timely reinvest sale proceeds at similar rates to assets sold; operator/tenant or joint venture partner bankruptcies or insolvencies; the cooperation of joint venture partners; government regulations affecting Medicare and Medicaid reimbursement rates and operational requirements; liability or contract claims by or against operators/tenants; unanticipated difficulties and/or expenditures relating to future investments or acquisitions; environmental laws affecting the company’s properties; changes in rules or practices governing the company’s financial reporting; the movement of U.S. and foreign currency exchange rates; the company’s ability to maintain its qualification as a REIT; and key management personnel recruitment and retention. Other important factors are identified in the company’s Annual Report on Form 10-K for the year ended December 31, 2017, including factors identified under the headings “Business,” “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” Finally, the company undertakes no obligation to update or revise publicly any forward-looking statements, whether because of new information, future events or otherwise, or to update the reasons why actual results could differ from those projected in any forward-looking statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to various market risks, including the potential loss arising from adverse changes in interest rates and foreign currency exchange rates. We seek to mitigate the underlying foreign currency exposures with gains and losses on derivative contracts hedging these exposures. We seek to mitigate the effects of fluctuations in interest rates by matching the terms of new investments with new long-term fixed rate borrowings to the extent possible. We may or may not elect to use financial derivative instruments to hedge interest rate exposure. These decisions are principally based on our policy to match our variable rate investments with comparable borrowings, but are also based on the general trend in interest rates at the applicable dates and our perception of the future volatility of interest rates. This section is presented to provide a discussion of the risks associated with potential fluctuations in interest rates and foreign currency exchange rates.

We historically borrow on our primary unsecured credit facility to acquire, construct or make loans relating to health care and seniors housing properties. Then, as market conditions dictate, we will issue equity or long-term fixed rate debt to repay the borrowings under our primary unsecured credit facility. We are subject to risks associated with debt financing, including the risk that existing indebtedness may not be refinanced or that the terms of refinancing may not be as favorable as the terms of current indebtedness. The majority of our borrowings were completed under indentures or contractual agreements that limit the amount of indebtedness we may incur. Accordingly, in the event that we are unable to raise additional equity or borrow money because of these limitations, our ability to acquire additional properties may be limited.

A change in interest rates will not affect the interest expense associated with our fixed rate debt. Interest rate changes, however, will affect the fair value of our fixed rate debt. Changes in the interest rate environment upon maturity of this fixed rate debt could have an effect on our future cash flows and earnings, depending on whether the debt is replaced with other fixed rate debt, variable rate debt or equity or repaid by the sale of assets. To illustrate the impact of changes in the interest rate markets, we performed a sensitivity analysis on our fixed rate debt instruments whereby we modeled the change in net present values arising from a hypothetical 1% increase in interest rates to determine the instruments' change in fair value. The following table summarizes the analysis performed as of the dates indicated (in thousands):

	September 30, 2018		December 31, 2017	
	Principal balance	Change in fair value	Principal balance	Change in fair value
Senior unsecured notes	$9,052,727	$(570,754)	$7,710,219	$(500,951)
Secured debt	1,623,202	(54,782)	1,749,958	(63,492)
Totals	$10,675,929	$(625,536)	$9,460,177	$(564,443)

Our variable rate debt, including our primary unsecured credit facility, is reflected at fair value. At September 30, 2018, we had $2,869,522,000 outstanding related to our variable rate debt. Assuming no changes in outstanding balances, a 1% increase in interest rates would result in increased annual interest expense of $28,695,000. At December 31, 2017, we had $2,294,678,000 outstanding under our variable rate debt. Assuming no changes in outstanding balances, a 1% increase in interest rates would have resulted in increased annual interest expense of $22,947,000.

We are subject to currency fluctuations that may, from time to time, affect our financial condition and results of operations. Increases or decreases in the value of the Canadian Dollar or Pounds Sterling relative to the U.S. Dollar impact the amount of net income we earn from our investments in Canada and the United Kingdom. Based solely on our results for the three months ended September 30, 2018, including the impact of existing hedging arrangements, if these exchange rates were to increase or decrease by 10%, our net income from these investments would increase or decrease, as applicable, by less than $13,000,000. We will continue to mitigate these underlying foreign currency exposures with non-U.S. denominated borrowings and gains and losses on derivative contracts. If we increase our international presence through investments in, or acquisitions or development of, seniors housing and health care properties outside the U.S., we may also decide to transact additional business or borrow funds in currencies other than U.S. Dollars, Canadian Dollars or Pounds Sterling. To illustrate the impact of changes in foreign currency markets, we performed a sensitivity analysis on our derivative portfolio whereby we modeled the change in net present values arising from a hypothetical 1% increase in foreign currency exchange rates to determine the instruments' change in fair value. The following table summarizes the results of the analysis performed (dollars in thousands):

	September 30, 2018		December 31, 2017	
	Carrying Value	Change in fair value	Carrying Value	Change in fair value
Foreign currency forward contracts	$43,664	$16,681	$23,238	$12,929
Debt designated as hedges	1,602,727	16,027	1,620,273	16,203
Totals	$1,646,391	$32,708	$1,643,511	$29,132

For additional information regarding fair values of financial instruments, see “Item 2 — Management’s Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies” and Notes 11 and 16 to our unaudited consolidated financial statements.

Item 4. Controls and Procedures

Our management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective in providing reasonable assurance that information required to be disclosed by us in the reports we file with or submit to the SEC under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. No changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) occurred during the fiscal quarter covered by this Quarterly Report on Form 10-Q that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, there are various legal proceedings pending against us that arise in the ordinary course of our business. Management does not believe that the resolution of any of these legal proceedings either individually or in the aggregate will have a material adverse effect on our business, results of operations or financial condition. Further, from time to time, we are party to certain legal proceedings for which third parties, such as tenants, operators and/or managers are contractually obligated to indemnify, defend and hold us harmless. In some of these matters, the indemnitors have insurance for the potential damages. In other matters, we are being defended by tenants and other obligated third parties and these indemnitors may not have sufficient insurance, assets, income or resources to satisfy their defense and indemnification obligations to us. The unfavorable resolution of such legal proceedings could, individually or in the aggregate, materially adversely affect the indemnitors’ ability to satisfy their respective obligations to us, which, in turn, could have a material adverse effect on our business, results of operations or financial condition. It is management’s opinion that there are currently no such legal proceedings pending that will, individually or in the aggregate, have such a material adverse effect. Despite management’s view of the ultimate resolution of these legal proceedings, we may have significant legal expenses and costs associated with the defense of such matters. Further, management cannot predict the outcome of these legal proceedings and if management’s expectation regarding such matters is not correct, such proceedings could have a material adverse effect on our business, results of operations or financial condition.

Item 1A. Risk Factors

There have been no material changes from the risk factors identified under the heading “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2017.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased[1]	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs[2]	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
July 1, 2018 through July 31, 2018	—	$ —		
August 1, 2018 through August 31, 2018	1,084	62.68		
September 1, 2018 through September 30, 2018	160	65.49		

Totals	1,244	$ 63.04

(1) During the three months ended September 30, 2018, the company acquired shares of common stock held by employees who tendered owned shares to satisfy tax withholding obligations.
(2) No shares were purchased as part of publicly announced plans or programs.
Item 5. Other Information
None.

Item 6. Exhibits

10.1	Transfer Letter, dated August 17, 2018, by and between John A. Goodey and Welltower Inc.*
10.2	Credit Agreement dated as of July 19, 2018 by and among the Company; the lenders listed therein; KeyBank National Association, as administrative agent, L/C issuer and a swingline lender; Bank of America, N.A. and JPMorgan Chase Bank, N.A., as co-syndication agents; Deutsche Bank Securities Inc., as documentation agent; Merrill Lynch, Pierce, Fenner & Smith Incorporated, JPMorgan Chase Bank, N.A., KeyBanc Capital Markets Inc. and Deutsche Bank Securities Inc., as U.S. joint lead arrangers; Merrill Lynch, Pierce, Fenner & Smith Incorporated, JPMorgan Chase Bank, N.A., Key Banc Capital Markets Inc. and RBC Capital Markets, as Canadian joint lead arrangers; and Merrill Lynch, Pierce, Fenner & Smith Incorporated and JPMorgan Chase Bank, N.A., as joint book runners.
12	Statement Regarding Computation of Ratio of Earnings to Fixed Charges and Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends (Unaudited).
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer.
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.
32.1	Certification pursuant to 18 U.S.C. Section 1350 by Chief Executive Officer.
32.2	Certification pursuant to 18 U.S.C. Section 1350 by Chief Financial Officer.
101.INS	XBRL Instance Document**
101.SCH	XBRL Taxonomy Extension Schema Document**
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document**
101.LAB	XBRL Taxonomy Extension Label Linkbase Document**
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document**
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document**

* Management contract or compensatory plan or arrangement

** Attached as Exhibit 101 to this Quarterly Report on Form 10-Q are the following materials, formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets at September 30, 2018 and December 31, 2017, (ii) the Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2018 and 2017, (iii) the Consolidated Statements of Equity for the nine months ended September 30, 2018 and 2017, (iv) the Consolidated Statements of Cash Flows for the nine months ended September 30, 2018 and 2017 and (v) the Notes to Unaudited Consolidated Financial Statements.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

WELLTOWER INC.

Date:	October 30, 2018	By:	/s/ THOMAS J. DEROSA
		Thomas J. DeRosa, Chief Executive Officer (Principal Executive Officer)	
Date:	October 30, 2018	By:	/s/ JOHN A. GOODEY
		John A. Goodey, Executive Vice President & Chief Financial Officer (Principal Financial Officer)	

Date:	October 30, 2018	By:	/s/ JOSHUA T. FIEWEGER
		Joshua T. Fieweger, Vice President & Controller (Principal Accounting Officer)	

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