LTC Properties

4Q14 Analyst & Investor Call

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CORPORATE PARTICIPANTS

Wendy Simpson - *Chairman, CEO and President*
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Clint Malin – *EVP & CIO*
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PRESENTATION

Operator
Good day and welcome to the LTC Properties Incorporated 4Q14 Analyst and Investor Call and Webcast. All participants will be in a listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star (*) key followed by zero (0). After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star (*) then one (1) on a touchtone phone; to withdraw your question, please press star (*) then two (2).

Before management begins its presentation, please know that today's comments, including the question and answer session, may include forward-looking statements subject to risks and uncertainties that may cause actual results and events to differ materially. These risks and uncertainties are detailed in the LTC Properties filings with the Securities and Exchange Commission from time to time, including the Company's most recent 10-K dated December 31, 2014. Please also note this event is being recorded. I would now like to turn the conference over to Ms. Wendy Simpson, Chairman, CEO and President. Please go ahead.

Wendy Simpson
Thank you, Denise. Good morning, everyone, and thank you for joining us today. This morning, Pam Kessler, our CFO, will start our presentation with comments on our financial results for 2014 fourth quarter and the year end. After Pam's comments, Clint Malin, our Chief Investment Officer, will talk about transactions that closed in and subsequent to the fourth quarter, as well as our current outlook for 2015 investments. At this time, I'll turn it over to Pam. Pam?

Pam Kessler
Thank you, Wendy. Normalized FFO increased 4% for the quarter, the fourth quarter of 2014, to $22.8 million, or $0.64 per share on a fully diluted basis, from $21.9 million, or $0.62 per fully diluted share a year ago. Revenues for the quarter increased nearly 8% or $2.2 million, year-over-year, primarily reflecting investments made in the second half of 2013 along with completed development and capital improvement projects in 2014. Fourth quarter interest expense was $3.7 million, an increase of $831,000.00 over the comparable 2013 quarter, due primarily to the sale of senior unsecured notes to fund acquisitions and developments. The reduction in the provision for doubtful accounts this year reflects loan payoffs in 2014, resulting in a recovery of prior bad debt provision and the onetime non-cash provision for loan loss reserve related to a mortgage loan origination and straight-line rent write-off last year.

General and administrative expenses were $3.3 million, or $628,000.00 higher this quarter, compared with a year ago, due to increased staffing levels, higher transaction and legal costs, and the timing of certain other expenditures. Currently, we are anticipating a G&A run rate of approximately $3.2 million per quarter for 2015. As previously disclosed, during the fourth quarter of 2014 we recognized a $3.8 million gain related to the sale of 16 assisted living properties with 615 units located in Arizona, Idaho, Oregon, and Washington, which were sold to Enlivant for $26.5 million.

Turning to the balance sheet, during the quarter we invested $11.8 million in properties under development and capital improvement projects at a weighted average yield of 8.9%. Capitalized interest for the quarter was $290,000.00. As previously announced in November, we purchased a parcel of land in Illinois for $1.4 million, which we added to a master lease with an affiliate of Anthem. Simultaneous with the purchase, we entered into a commitment to develop a 66 unit memory care property for $10.8 million, excluding the land price. Additionally, we purchased a 48 unit private pay memory care community in Castle Rock, Colorado for $9.8 million. We added this property to an existing twelve year master lease within affiliate of Senior Lifestyle Corporation. Clint will discuss our growing relationship with Senior Lifestyle and our 2015 investment activity momentarily. In conjunction with the acquisition, we agreed to pay a $4 million earn-out based on certain performance targets. Accordingly, we reported a $3.2 million earn-out liability, which represents the estimated net present value of the future payment we expect to make.

During the 2014 fourth quarter, we funded $1.8 million under a construction loan and received $7.5 million in mortgage loan receivable payoffs in principal amortization. As previously disclosed, we amended our unsecured credit agreement increasing commitments to $400 million from $240 million with the ability to increase total commitments to $600 million. The amendment also lowered the pricing grid by 25 basis points based on certain leverage ratios. Current pricing under the agreement is 125 basis points over LIBOR with an unused commitment fee of 30 basis points. Additionally, we added Credit Agricole and Union Bank to our bank group and the maturity of the credit agreement to October 2018 with a one year extension at our discretion. Currently, we have borrowings of $18 million outstanding and $382 million available under our line of credit. Additionally, we prepaid $1.4 million of bonds secured by five assisted-living properties in Washington. Thus, we no longer have any secured debt outstanding on our balance sheet.

In the fourth quarter of 2014, we received $24.6 million in net proceeds from the sale of 600,000 shares of common stock in a registered direct placement. We granted 7,500 shares of restricted stock, and received approximately 800,000 in proceeds from the exercise of 33,334 stock options. At the end of the quarter, LTC's investment grade credit metrics remained one of the best in the healthcare REIT universe, with debt to trailing 12 months normalized EBITDA of 2.6 times and normalized trailing 12 months fixed charge coverage ratio of 6 times and a debt to enterprise value of 15.4%. I'll now turn the call over to Clint.

Clint Malin

Thank you, Pam. Good morning everyone and thank you joining us today. We are very pleased to have expanded our relationship with Senior Lifestyle, our fifth largest operator as measured by revenue, with the addition of the recently acquired memory care community in Castle Rock that Pam mentioned. The property, which was acquired in an off market transaction from a single property owner-operator, complements both LTC and Senior Lifestyle's existing Colorado footprints. The property, which was built in 2012, demonstrates a successful execution of LTC strategy to invest in newer and more modern assets. We have enjoyed a tremendous start to 2015 by closing on transactions and entering into new development commitments, relating to four properties and two parcels of land. These transactions totaled $74 million.

First, we are very excited to establish a new relationship with Thrive Senior Living, based in Atlanta. Thrive is a growth oriented senior living provider with a proven development track record, operating primarily in the Southeastern and South Central U.S. Details of our $29 million dollar commitment to develop two seniors' housing communities with Thrive are included in our earnings release. The properties are subject to a master lease that grants LTC a right to provide similar financing for certain future development projects. Next, we expanded our relationship with Prestige Healthcare, our second largest operator as measured by revenue, by executing on two transactions. First, we originated a thirty year $11 million mortgage loan, secured by a 157 bed skilled nursing center in Michigan. Second, we have committed

$20 million in additional loan proceeds under our existing 15 property mortgage loan with an affiliate of Prestige for the redevelopment of two post-acute care centers located in Richmond and Rochester Hills, Michigan. As consideration for this commitment, Prestige forfeited its option to prepay up to 50% of the then outstanding loan balance. As a result of the forfeiture of this prepayment option, we expect to record $1.3 million of effective interest income related to this loan during in 2015. Additional details regarding these two transitions can be found in our earnings release.

Finally, we expanded our relationship with Fundamental, exercising LTC's right under a $10.6 million mortgage and construction loan, to purchase a 106 bed post-acute care center located in Wisconsin for a total investment of $14 million. This property, along with four others in our portfolio currently leased to Fundamental, has been consolidated into a single master lease, further strengthening the security of our investment with Fundamental. This recent investment activity demonstrates LTC's ability to execute follow-on transactions with our existing partners, while continually focusing and cultivating new relationships.

Turning to our pipeline, we currently have approximately $100 million of active deals with fully executed letters of intent comprising six development projects and one preferred equity investment. We continue to see development financing playing a key role in the facilitation of our near-term investment in private pay seniors housing properties, especially given the unprecedented low cap rate environment for acquisitions. In addition to the low cap rate environment, we are seeing more transactions, sellers are requiring buyers to utilize the RIDEA structure on private pay assets that are fully valued. Given the valuations seen on acquisitions in private pay assets, we continue to believe that the risk adjusted returns afforded development projects in today's market provided better relative long-term return proposition for our shareholders. Three of the development projects in our pipeline have been sourced through our exclusive development pipeline agreement with Anthem Memory Care, to construct additional private pay memory care communities. Two of the projects will be located in the greater Chicago area, enhances Anthem's strategic presence and growth in this key metropolitan market. The third project will be Anthem's first entrance into Southern California. These projects just mentioned will bring to eight the total number of new development projects with Anthem since 2012.

In further diversifying our operator base, LTC has sourced another new operator relationship with a company focused on developing an operating private pay memory care communities, primarily in the Southeast and the certain parts of the Midwest. The letter of intent provides for LTC to enter into a purchase agreement as a forward commitment for takeout financing at a predetermined price upon issuance of a certificate of occupancy and state healthcare licensure. The two projects subject to the letter of intent are currently under construction and will be master leased to the operating company upon LTC's acquisition of the property, of each property. The sixth development project in our pipeline is an existing, is with an existing customer to finance construction of a new 90-bed post-acute care center in Virginia. This transaction will be structured as a construction loan, granting LTC a right to purchase the property at a predetermined price for a period of time following the issuance of a certificate of occupancy and state healthcare licensure. If we elect to exercise our purchase option, the property will be added to an existing master lease.

Lastly, we have entered into a letter of intent with an existing, with existing partners to fund up to $26 million in a preferred equity investment to facilitate their acquisition of a seniors' housing campus and a combination assisted living memory care community, both located in Arizona, which they manage on behalf of the current owner. As part of this transaction, LTC will be given a purchase option to acquire this property in the future. Although these letters of intent have been fully executed, I must caution that these transactions remain subject to due diligence and therefore may not be converted into closed investments. Should we be successful in executing on these transactions, however, our combined investments and development commitments to date for 2015 will be approaching $175 million.

Turning to the portfolio, lease coverage for the trailing twelve month period ended in the third quarter 2014 remains consistent and strong. I will caveat these following coverage metrics are derived from unaudited financial statements provided to us by our operators and are reported one quarter in arrears. EBITDARM coverage for our skilled nursing portfolio is 2.23 times, assisted living 1.62 times, and range of care 1.73 times. EBITDAR coverage, after an allocated management fee of 5% of revenues, is 1.65 times for skilled nursing, 1.39 times for assisted living, and 1.24 times for range of care. Compared with the previous quarter, occupancy has remained consistent across all property types, occupancy for the trailing twelve month period ended in the third quarter is as follows, assisted living 85.6%, skilled nursing 79.7% and range of care 85.1%. Our quality mix remained strong with 55% of our underlying rental revenues coming from private pay sources.

During the quarter, we had three development projects come online. Anthem memory care open to 48 unit private pay memory care community in Aurora, Colorado. Carespring opened a 143 bed post-acute care center in Northern Kentucky, situated in the Cincinnati Metropolitan area. And Mustang Creek Estates, a senior living provider operating in the Dallas/Fort Worth Metroplex, opened a 80 unit assisted living and memory care community in Frisco, Texas. Additionally, this week Anthem opened our fourth project with them, a 60 unit private pay memory care community located in Westminster, Colorado. Development financing has proven to be a successful investment strategy for LTC, bringing new assets into our portfolio by committing approximately $135 million to our development over the past three years.

With development commitments already entered into in 2015 combined with the opportunities in our pipeline, the total allocated capital for development would reach approximately $260 million since 2012, when we began our financing program. Given the operator partnerships we've established since 2012, we expect continued growth in our development financing program, strategically expanding our revenues derived from private pay sources, and decreasing the average age of our portfolio. Now, I'll turn the call over to Wendy for her comments.

Wendy Simpson
Thank you, Clint and Pam. LTC has, had a rich history of being very disciplined in making accretive investments, and disciplined in structuring a company that is conservatively capitalized with low debt to enterprise levels, and well-structured debt maturity. At the end of 2014, LTC had approximately $350 million of debt capacity to make strategic investments before we reached a 30% leverage to total enterprise value, and that calculation is leaving enterprise value at a static number, assuming the $350 million investments does not expand the enterprise value. This affords us significant flexibility to execute our growth strategy of expanding and diversifying our portfolio by operator, property type and geography. Pam discussed our current bank line that was undrawn at yearend and currently has only $18 million outstanding. We are in discussions with some insurance companies to possibly establish new shelf products with them, whereby we can draw down on amounts as needed to fund investments over a long maturity, longer than our bank line maturity. This significant liquidity will also support our 2015 growth plan. As Clint mentioned, so far in 2015, we have closed transactions or entered into development commitments totaling $74 million. On our call last time, I said that our first quarter 2015 would be active and it has been to date. Currently, we continue to favor the sale

leaseback opportunities, however, as Clint mentioned we are seeing an increase in larger transactions that require a RIDEA structure. While I can appreciate the strategy of the operators wanting to get historical top dollar for the real estate and the operations, I wonder why the operators, who are closer to the actual operating business, think this is a good time to sell the upside. Whatever the reason for the increase, LTC is unlikely to make an investment that would include a RIDEA structure at this time. And as Clint discussed, we believe that the disciplined building of new healthcare related assets with certain operators is now proven a solid way to grow LTC. So far in 2015, we have welcomed one operator to our development platform and are advanced in discussions in negotiations with one other operator. When we began discussing our development initiative in 2012, we were rightfully cautious. We continued to be disciplined in our approach and are very satisfied with the success of the program in terms of construction costs, construction timelines, and operational lease ups. We can take credit for having the money available and selecting the right partners, but the actual transformation from plan through successful building and operations, is totally due to the fantastic operating companies with which we have been able to partner.

Additionally, in 2015, we executed LOIs to make a preferred equity investment. This would be our first such investment and we may do other financing structures to participate in certain transactions and generate additional capital for our company in the future. We're bullish on LTC's opportunities in 2015 and look forward to reporting our successes as they happen in our quarterly calls. Incorporating into 2015 transactions closed in the fourth quarter of 2014 and transactions that have closed in the first quarter of 2015, guidance for FFO is between $2.57 and $2.59. 2014 FFO was $2.55 and we have successfully eliminated the impact of the repositioning and sales of assets done in the fourth quarter of 2014. Guidance does not include additional transactions in 2015 and we look forward to increasing guidance as we make accretive transactions in 2015. Thank you for dialing in and I'll now open the call for questions. Denise?

QUESTIONS AND ANSWERS

Operator
We will now begin the question and answer session. To ask a question, you may press star (*) then one (1) on a touchtone phone. If you are using a speakerphone, please pick up your handset prior to pressing the keys. If at any time your call has been addressed and you would like to withdraw your question, please press star (*) then two (2). At this time, we will pause momentarily to assemble a roster. And our first question is from Paul Morgan from MLV. Please go ahead.

Paul Morgan
Hi, good morning. Just real quick, sorry, I missed the punch line at the very end there. Could you give the guidance again for the full year and then say, mention whether it incorporates, so it incorporates your year to date commitments but nothing else, is that right?

Wendy Simpson
That is correct.

Paul Morgan
Okay, what was the number again?

Wendy Simpson
$2.57 to $2.59.

Paul Morgan
Okay, so, we should just think of that as kind of a run rate based on Q4 along with the G&A guidance you provided plus the investments that you've announced in January and February?

Wendy Simpson
Right, it wouldn't include anything that we have under the, under an LOI, such as the preferred investment that would not have been included in that.

Paul Morgan
And so then it also wouldn't incorporate any particular type of, I guess, equity financing because it's not including any projects beyond what you've announced, is that right?

Wendy Simpson
That's correct.

Paul Morgan
Okay. On the preferred equity side, what's been the catalyst that, you mentioned that you're looking to do more of these, that's been deal specific issues, or a kind of a specific intention on your part to use these to, as a mechanism to acquire newer assets, is there anything specific that you've done?

Clint Malin
This is Clint. This preferred equity investment we're looking at right now really was born out of one of our relationships with our existing partners and it was an opportunity to help them grow their platform. So it's a smaller investment for us, but it's a unique opportunity to help out existing partners and get us familiar with the structure that we can look at possibly using it in unique cases here and there. So I don't think it's not going to be a strategy that we are going to start doing a tremendous amount of investment in, but I think there is room for us to look at that as an investment strategy.

Paul Morgan
Okay, and then on the development side, maybe you can provide a little color on the recent openings, how lease-up is going versus your expectation, and kind of your view on the supply situation in your markets, and how that's influencing the geography when you're looking for new deals over the course of the year?

Clint Malin
Lease-ups, actually, has been growing very well at our properties. In fact, the property that just opened this week in Westminster, they're opening, it's a 60-unit community and already have 17 deposits and expect within the next week or two to have 17 residents move into that community. So in general, we've been very, very pleased with the lease-up. In our underwriting, we've been looking at a 18 to 24 month ramp up, but it's generally been stronger than that, so we've been very happy so far with where we're at with lease-up.

Paul Morgan
So there's no markets that you're, that where you've been developing recently, Denver or other markets, where the new supply is enough of a concern to make you kind of look elsewhere for future deals?

Clint Malin
Well, in the Denver market, we now have four communities in the Denver market and I think that we're done Denver, we are not looking at growing a lot more in development in that locale. So we've strategically come in, financed that market, and now we are looking at other geographies with Anthem, as an example.

Paul Morgan
Okay, great, and then just lastly, you didn't spend too much on talking about investment opportunities on the SNF side, how are you thinking about pricing and the investment pipeline there and your appetite for acquisitions?

Clint Malin
We're still very bullish in looking at skilled opportunities and we have some in our pipeline that we are looking at. Pricing is probably somewhere in the 8.5% to 9% range for skilled assets of a certain quality. I think larger transactions, as we mentioned on the call last time, could command a cap rate probably south of 8.5%. And we've seen some larger SNF transactions that are on the market, so it's something that we are still actively looking at and think that the risk adjusted return on skilled is very positive.

Wendy Simpson
And we are looking forward to possibly building another transitional skilled property with our operator, Carespring. We opened the one in Coldspring, Kentucky, and it's way ahead of its projections of occupancy. And they have the CON to build another one in Boone Spring, and they're working on getting all of that entitled and everything and so we'd be investing a significant amount of money in building another skilled nursing property, which we're very happy to be doing with them.

Clint Malin
Also, we've seen a number of portfolios, too, on the skilled side that, older antiquated product, 1960-70 vintage properties, and that type of skilled nursing asset is probably not what we're looking at bringing into the portfolio. So there's a range of skilled product that is on the market.

Paul Morgan
Great, thanks.

Operator
And our next question comes from Michael Carroll from RBC Capital Markets.

Michael Carroll
Thanks. I know you guys touched on this during the call a little bit, but can you kind of give us an overview of what you're seeing in the sale leaseback market today? And how many of those deals are actually in the investment pipeline you are tracking currently?

Clint Malin
Sure. Well, I think if you look at it between sale leaseback on the private pay assets, as well as on skilled nursing, as we talked about on private pay assets in our prepared remarks, the valuations on those make it very challenging to put those into a triple net lease structure. So I would say, outside of unique opportunities with some of our existing customers on sale leasebacks where there's a, where our partners want to see coverage left in the deal, that works. So we'll probably see more of that on the skilled nursing side as far as the triple net leases.

Michael Carroll
Then how much of that is in your pipeline right now?

Clint Malin
As far as sale leasebacks?

Wendy Simpson
Sale leasebacks.

Michael Carroll
Yes.

Clint Malin
If you're looking at it on sale leaseback side, I would say probably 30% to 40%.

Michael Carroll
Okay.

Wendy Simpson
$30 million.

Michael Carroll
And then, I know, Wendy, I think last time we talked, you were pretty encouraged about some SNF portfolios that are out there and can you get us an update on that and the likelihood of LTC able to get one of those deals?

Wendy Simpson
Yes, there were a couple of deals that went to REITs that Care24 had claimed they don't like SNF assets. So the other bigger players have come into the market and are buying the portfolio type of assets.

Michael Carroll
So those portfolios, are you still tracking any portfolios that you may be interested in or are those off the market now?

Wendy Simpson
They're off the market now.

Michael Carroll
Okay, and then can you kind of give us the timing of the redevelopment projects for the, I guess, Prestige, how, when will those projects kick off?

Clint Malin
Brent Chappell, our Senior VP of Investment and Portfolio Management is here. Brent, do you want to talk about timing on those?

Brent Chappell
Yes, the first of which will probably kick off here in the next, just a few months, that's in the Richmond location. And then Rochester Hills, I think just due to the entitlement process and some of the other regulatory processes they will have to run through will probably be within the

next nine months or so breaking ground.

Michael Carroll
Okay, and then finally, can you give us some color on the lease inducements that were paid? Why did you have to provide inducements and is this a common practice?

Clint Malin
As we're looking at it, focusing on development and working with operating companies, we're trying to find ways to put these development projects together and create pipelines with customers. The lease inducement really is a function of looking at what otherwise would be viewed as a construction loan and including lease-up costs and working capital into the construction loan. So it's really financing some of the working capital needs for the operating partners post C of O. So there's a couple of ways of doing that. One is doing the lease inducement, the other is doing deferred rent on the projects with these customers that we're working with on these specific projects, doing a lease inducement in those transactions made more sense for those projects.

Michael Carroll
Okay, great, thank you.

Clint Malin
You're just including it basically in basis, although that lease inducement gets recorded, it's accounted for differently than if you were including it actually in the property costs on our balance sheet.

Michael Carroll
Okay, great, thanks.

Operator
And our next question is from John Roberts from Hilliard Lyons. Please go ahead.

John Roberts
Morning, Wendy.

Wendy Simpson
Good morning, John.

John Roberts
I'm sorry about this, actually, we had some construction outside the window there, so my speaker phone kept cutting in and out, when I picked up it hung up on me, so I may, and I had to dial back in, so I may have missed some of this. But, Pam, you mentioned the G&A being more expensive, but the interest expense also seemed to be up a little bit more than I would have anticipated given that you really didn't have an increase in debt, year-over-year. Was that just a function of taking money off the line and putting it fixed rate, or was there something else there?

Pam Kessler
No. That's it, it was terming out the line with the $30 million of senior unsecured notes that we had under our shelf agreement with Prudential.

John Roberts
Super, and more big picture, Wendy, it looks like you've really accelerated your acquisitions here in Q1, is that something that maybe will continue going forward, is that a function of maybe getting the Enlivant issue out of the way, which probably took some of your ability to look at these things while you're working on that and we might see an increased level of acquisitions going forward because of that?

Wendy Simpson
Yes.

John Roberts
Okay, and finally, it's interesting, you mentioned about first of all the RIDEA issue, I agree with you 100%. I guess maybe the guys who are doing this don't remember what you and I went through in 2000/2001 with our conversations back in those days. So, certainly I think that's, at least from my perspective, a much better strategy than what I'm seeing with all the other REITs getting into the operating side of things. But maybe I can have you comment a little bit about consolidation in this sector right now. You've got most recently OHI and AVIV. What's your thoughts on that, given what we're seeing as a somewhat of a consolidating issue in the industry right now and your discussions about maybe some of the big guys looking more at the SNF area than they had in the past?

Wendy Simpson
Mm hm. Well, the big guys, even though they seem to be able to do $2 billion of transactions in any, at any time, still need fodder to feed the machine. And their $2 billion transactions are fairly expensive in terms of what they pay and what yield they can get. So since the skilled nursing industry has seriously evolved over the last ten years, and there are lot of good assets out there, and newer assets, then if you can get an eight yield on something like that, we always knew that they'd turn their attention back to the larger transactions. There's still a ton of assets out there owned by the smaller operators who would not be of interest, maybe, to the bigger players. In terms of transactions that are merging transactions, I think each one of them, the companies had a strategic reason for doing those transactions, Aviv and Omega, and NHP and Ventas. Right now, our strategic direction is to grow the company as we're growing it, adding new assets, adding some accretive investments through the sale leaseback transactions, and just continuing to grow the Company.

John Roberts
Great, thanks, Wendy.

Wendy Simpson
You're welcome, John.

Operator
The next question is from Daniel Bernstein from Stifel. Please go ahead.

Daniel Bernstein
Hey, good afternoon. I guess, it's good morning, sorry, not quite afternoon yet. So going a little bit more on the skilled nursing transactions, what are you seeing out there, and what you want to invest in, are you looking to do deals with operators that are more on the higher acuity side on skilled nursing, or are you looking for more operators that have more of a balanced mix between Medicaid and Medicare? Just trying to think about it how are you thinking about, we're getting some proposals on site neutral payments between ERVs and skilled nursing and

how do you think you want to position your portfolio on investments for changes in that healthcare system?

Clint Malin
Sure, Dan, that's a good question. I would say higher acuity but our goal really is to focus on identifying and partnering with providers that have regional focus, have a core team that are really looking at what, where is the skilled nursing business going and trying to position themselves to take advantage of opportunities as we're seeing in an evolving environment as far as whether it's managed Medicaid, Medicare Advantage, going into some type of ACO payment environment, bundling. So we're really looking at the company and where those companies are going and how they're looking at the business. I think, when you look at companies like that, you find companies that focus, tend to focus more on higher acuity. As far as looking at buildings that would only provide service for transitional care that's all Medicare or HMO, we'd have to probably look a little farther about what markets those are in. So I think having a component of Medicaid is still a viable aspect for a long term successful business in the skilled nursing space but it, and we're looking for newer modernized assets, as well, not the older '60, '70 vintage properties.

Daniel Bernstein
Okay, I assume that's a lot of what you're doing on the development side, particularly, put some more modernization into those facilities relative to those older ones you're not.

Clint Malin
Absolutely, or buying properties that maybe a little older but being able to buy them at the right price to deploy additional capital to renovate, modernize, redevelop, looking for unique opportunities that may come about with partners on opportunities like that.

Daniel Bernstein
Okay and then can you talk a little bit more about the average age of the portfolio and how that's changed over the last few years and where you want it to head? I just want to think about some actual numbers on those comments that you made earlier in the call.

Wendy Simpson
I'm not sure we have our current average age after taking out the assets that we sold at the end.

Daniel Bernstein
Okay.

Wendy Simpson
But we'll figure that out, Dan, and let you know.

Daniel Bernstein
Yeah, we can always get back, yeah, just curious as to where it's gone.

Wendy Simpson
Sure.

Daniel Bernstein
And maybe even by difference, where it is on, by asset class, skilled nursing and assisted living, just where it's been and where it is.

Clint Malin
Well, generally, some of the loans that are paid off in the portfolio, those were typically on older assets. And then, really, the skilled nursing product we've invested in the last three to four years has been newer vintage, as we've discussed on our earnings call, plus development. So in general that's, it's, we're decreasing, overall, the average age of the portfolio.

Daniel Bernstein
Okay, and then, also, just going back to those RIDEA comments, those are, those RIDEA, they are a pretty strongly worded, negative vibe against doing RIDEA transactions. But also, it sounded like, if I was going to take this correctly, that you don't understand, that, again, you don't understand why the operator would do that deal, and so just trying to put on the operator hat, are the sellers of those portfolios, are they large regionals, are they private equity backed, or is even the smaller operator wanting to do RIDEA deals trying to get the top price, regardless of whether they give away some of the upside or not?

Wendy Simpson
Well, the ones that we've heard about are, some of them have equity backing that want to get out and others are just big packages that come to market. So, and I fully understand why the operator wants to cash out today, and have no risk of the future. And it's just, as a philosophy, I don't understand putting your future in the hands of somebody who's now got all of his money off the table and has a small upside, but he has to work really hard to get it.

Clint Malin
One thing we're seeing on that, Dan, to the RIDEA structure deals is, typically, the operating partner in the deal, they have some participation in a liquidity event upon sale, but a lot of times that participation is not being reinvested. So the RIDEA structure could work depending on how much of that liquidity event remains in the deal that aligns interest with us and that operating partner, but we are not seeing a lot of transactions under RIDEA where those dollars are being left.

Daniel Bernstein
A lot of the RIDEA deals you see that the operator simply doesn't want to keep an equity stake.

Clint Malin
Correct.

Wendy Simpson
Right.

Daniel Bernstein
In the TRS.

Wendy Simpson
Yeah, and they're full. So the upside is rate increases, cost controls, possibly some, I mean, when RIDEA came into existence four or five years ago, I think the earlier transactions had some upside, like buying assets that were 70%, 80% occupied. So as occupancy went up, it was a good bet, a good investment. But the ones that we're seeing are full or effectively full and the upside doesn't seem to be that achievable.

Daniel Bernstein
Okay, would I take that to mean that you're not, you don't think the, you think the fundamentals with senior rehousing have come to closer to a peak, or is it simply, we've come off the bottom and the upside for you, it's just not great enough, even if the fundamentals are still good, the upside is, off the bottom is not great enough for you anymore?

Wendy Simpson
It's not great enough for us.

Daniel Bernstein
Okay, okay, I appreciate the color, thank you.

Wendy Simpson
Thank you, Dan.

Operator
And just as a reminder, if you would like to ask a question, please press star (*) then one (1) on your touchtone phone. Our next question is from Jordan Sadler from KeyBanc Capital Markets. Please go ahead.

Jordan Sadler
Good morning. Looking for a little bit of clarification on the guidance, maybe you could help me bridge from the fourth quarter the $0.64 of FFO to the $2.58 midpoint. I'm sure there's some puts and takes that I feel like I'm missing, one of which, specifically, is the Prestige payment of the $1.3 million. Is that embedded in the guidance, that payment that you're booking in 2015, and then maybe any other puts and takes that might weigh on that number, because I'm just, I guess I'm looking at the $83 million of commitments completed to date, and I feel like it might be biased a little bit higher than that, so what am I missing?

Wendy Simpson
Well, starting out, the 1.3 isn't a payment, it's a, it's the recognition of effective interest now that the purchase option is gone. So that 1.3, is that hitting all at once?

Pam Kessler
That's over, that's in 2015.

Wendy Simpson
Okay, so that

Pam Kessler
So it's similar to

Wendy Simpson
That's amortized over the years.

Pam Kessler
Yeah, it's similar to straight line rent, so it's going to be amortized over the four quarters. And additionally, because of all the development that's come online and the new leases, we have an uptick in straight line rents and that's all in the supplemental, I think it's like page 15. But it's essentially about $4 million more of straight line rents. So you're seeing FFO grow as you would anytime you enter into a new lease. The FFO is larger than the FAD because of the way

straight line rent works.

Jordan Sadler
Right, so I guess the $0.64 that you did in the quarter of FFO, is $2.56 annualized? And the $1.3 million is going to be an FFO, as well, amortized, but it's going to be a FFO, an extra $0.035, correct? So that puts you at $2.595, assuming nothing happens post 12/31. And so…

[multiple voices]

Pam Kessler
You have the rent reduction from the sale of the Enlivant assets, that's probably that the…

Jordan Sadler
That's the biggest, that's the biggest drag still?

Pam Kessler
Yes.

Jordan Sadler
Okay, and then, as it relates to the pipeline, any incremental insight you can lend into the, it sounds like there's $90+ million, plus or minus, that's under letter of intent in terms of the likelihood or expected timing?

Clint Malin
I think, I described those, this is Clint, I described those as active deals. We have letters of intent. I mean, I think these are all very valuable transactions that we've been actively engaged with these parties. Our pipeline is larger than that. We have other deal activity, but these are the portion of the pipeline that is actively being negotiated and we're moving towards execution on this. And as an example, three of the projects are with Anthem, which is a partner of ours and we have been working on that under our exclusive development pipeline agreement, so those are very real, very real deals.

But we feel good about where we're at on the approximately $100 million of the active pipeline. Again, things could change, it always happens, but we try to give you guys as much insight and color into what we're working on and there are other deals behind that that we're working on, as well. But we feel pretty comfortable about where these are at, and we're working as quickly as possible to get these transactions closed. And so if anything changes, we will update you on, you know, next quarter by due caveat, when we talk about this in more detail that things could change, but as of right now, they seem likely.

Jordan Sadler
Okay, that's helpful, and lastly, I guess, Wendy, maybe coming back to that RIDEA comment or discussion, do these valuations compel you in any other way regarding your own existing portfolio? So maybe you're unlikely to buy one of these RIDEA deals, but is there an opportunity, is pricing getting to a point where there may be incremental opportunity to pair any assets?

Wendy Simpson
We are constantly looking at our portfolio, in terms of sale of assets, and over the years we've sold some assets almost every year. Right now, we are not actively looking at selling any of the assets, but we're certainly open to looking at that. We could probably sell all of our memory

care assets for three times what we've got into them, but that's not our current strategy.

Jordan Sadler
Okay, thank you.

Wendy Simpson
You're welcome.

Operator
And showing no further questions, this will conclude our question and answer session. I would like to turn the conference back over to management for any closing remarks.

CONCLUSION

Wendy Simpson
Thank you, Denise, and thank you all for joining us today. As we said, we're very active in the year. We expect to be active all year long, and look forward to talking to you after our first quarter and giving you some more color on what we see for 2015. Again, thank you and have a great day.

Operator
The conference is now concluded. Thank you for attending today's presentation. You may now disconnect.