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LTC Properties, Inc. (LTC)

Q4 2013 Earnings Call

CORPORATE PARTICIPANTS

Wendy L. Simpson
Chairman, President & Chief Executive Officer, LTC Properties, Inc.

Pamela J. Shelley-Kessler
CFO, Secretary, EVP & Head-Investor Relations, LTC Properties, Inc.

Clint B. Malin
Executive Vice President and Chief Investment Officer, LTC Properties, Inc.

OTHER PARTICIPANTS

John M. Roberts
Analyst, J.J.B. Hilliard, W.L. Lyons LLC

Karin A. Ford
Analyst, KeyBanc Capital Markets, Inc.

Rich C. Anderson
Analyst, BMO Capital Markets (United States)

Dan M. Bernstein
Analyst, Stifel, Nicolaus & Co., Inc.

Todd J. Stender
Analyst, Wells Fargo Securities LLC

Michael Carroll
Analyst, RBC Capital Markets LLC

MANAGEMENT DISCUSSION SECTION

Operator: Hello, and welcome to the LTC Properties, Incorporation Conference Call. All participants will be in listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions]

I'd like to remind everyone that today's comments, including the question-and-answer session, will include forward-looking statements. These statements are subject to risk and uncertainties that may cause actual results and events to differ materially. These risk and uncertainties are detailed in LTC Properties, Incorporation's filings with the Securities and Exchange Commission, including the company's 10-K dated December 31, 2012. Please note this event is being recorded.

At this time, I would now like to turn the conference over to Ms. Wendy Simpson, Chairman and CEO. Ms. Simpson, please go ahead.

Wendy L. Simpson
Chairman, President & Chief Executive Officer, LTC Properties, Inc.

Thank you, Ed. Good morning, everyone, and thank you for joining us today. I'm pleased to start this conversation with you today to report that we reached the point in January of this year when the lease with Assisted Living Concepts and Extendicare entered its last 12 months of existence. More about that when Clint gives his comments in a few minutes.

And for the year ended 2013, we reported diluted normalized FFO of $2.37, and that was right in line with the guidance we gave on August 9 last year after our May equity offering. The $2.37 was a 4.9% increase over 2012 and did include the dilutive impact of the equity offering we did at an advantageous point in May of 2013. We did the secondary offering in advance of a significant investment. This investment, the Michigan loan, that we discussed last quarter contributed revenue for only one month in 2013 and will be contributing for the entirety of 2014 and beyond.

Right now I will turn the call over to Pam Kessler, our Executive Vice President and Chief Financial Officer, who will comment on our financial results for the quarter and for the year and give operator coverage statistics. Pam will also give some details about our plans for an Analyst Day and property tour this year. Then Clint Malin, our Executive Vice President and Chief Investment Officer, will talk about our quarter and give you a review of how we see our pipeline and development activities and the process we're following regarding the 37 ALC/Extendicare properties. I'll then have additional comments before opening the call to questions. Pam?

Pamela J. Shelley-Kessler

CFO, Secretary, EVP & Head-Investor Relations, LTC Properties, Inc.

Thank you, Wendy. I'll be discussing sequential quarter-over-quarter results. I'll refer you to the 10-K that was filed yesterday for results – the annual results and results compared to prior year.

Revenues increased during the quarter approximately $2.5 million, primarily due to the origination of the $124 million Michigan loan, completed development projects and acquisitions, partially offset by the sale of properties in Ohio in the third quarter. Interest expense increased $271,000 due to the sale of $70 million worth of senior unsecured notes to Prudential to pay down the line of credit.

During the fourth quarter, we reported a $1.2 million non-cash loan loss reserve in conjunction with the origination of the Michigan loan and wrote off $870,000 in non-cash straight-line rent. General and administrative expense was flat quarter-over-quarter. In the third quarter, we recognized a $2.6 million gain on the sale of six skilled nursing properties in Ohio. We did not sell any properties in the fourth quarter. Excluding the gain on sale of the properties in the third quarter, net income available to common shareholders was flat quarter-over-quarter, because the increase in revenue was offset primarily by one-time non-cash charges, as I discussed before, related to the loan loss reserve and straight-line rent.

Normalized fully diluted FFO per share was $0.62 this quarter compared to $0.57 last quarter, primarily due to higher revenues from the Michigan loan origination, completed development projects and acquisitions. Normalized fully diluted FAD per share was $0.61 this quarter compared to $0.56 last quarter, due to the higher revenues from the Michigan loan origination, the development projects and acquisitions.

Turning to the balance sheet. In November, we purchased one 120-bed skilled nursing property in Trinity, Florida, for $14.4 million. The property was added to a master lease at an incremental initial cash yield of 8.75%. The new master lease contains five properties with 716 beds and units and has a 10.7% GAAP yield.

During the quarter, we invested approximately $9.3 million in development, redevelopment and capital improvement at a weighted average yield of approximately 9%. Capitalized interest for the quarter was approximately $214,000. We purchased one parcel of land in Colorado for a total of $1.4 million and entered into a development commitment totaling $10.7 million to purchase the land and build a 60-unit memory care community. In addition, we acquired four parcels of vacant land adjacent to properties securing the Michigan loan for $1.2 million. The land will be held for future expansions and/or development.

During the quarter, we funded $2.2 million under a construction loan and received approximately $500,000 in scheduled principal payments on mortgage loans receivable. As previously reported, during the fourth quarter, we originated a $124 million mortgage loan secured by 15 skilled nursing properties. The loan provides for an additional $12 million commitment for capital improvements.

In November, we closed on the previously reported sale of $70 million of senior unsecured notes to Prudential under our shelf agreement with them. The note bears interest at an annual fixed rate of 3.99% and matures in eight years. We used the proceeds from the sale of the notes to pay down our line of credit.

At December 31, we had borrowings of $21 million outstanding under our line of credit. Currently, we have $32.5 million outstanding and $207.5 million available under our line of credit. Additionally, we have $30 million available under our shelf agreement with Prudential. Our investment grade credit stack, our debt to market value of 18%, debt to gross asset value of 24%, and debt to normalized EBITDA of 2.9% (sic) [2.9x], and we continue to maintain our NAIC-2 investment grade rating from the Insurance Rating Commission.

During the fourth quarter, we increased our common dividend per share 9.7% from $0.155 per month to $0.17 per month. Accordingly, in the fourth quarter, we paid a total of $18.5 million in preferred and common dividends.

In turning to operator statistics, I'll give the general caveat that these numbers come from our operators. They're unaudited and have not been independently verified by us. Additionally, the occupancy and lease coverage information is for the trailing 12 months third quarter 2013 compared to the trailing 12 months second quarter of 2013. Occupancy in our same-property ALF portfolio was 78%. Excluding properties leased to Assisted Living Concepts and Extendicare, occupancy in our ALF portfolio was 87%. EBITDAR lease coverage after a 5% management fee was 1.4 times; and before management fee, or EBITDARM, coverage was 1.7 times.

Occupancy in our same-property SNF portfolio was 79%. EBITDAR lease coverage after a 5% fee was 1.8 times; and before management fee or EBITDARM, coverage was 2.4 times.

Occupancy in our same-property Range of Care portfolio, which consists of properties that provide any combination of skilled nursing, assisted living, independent living and/or memory care services, was 87%. EBITDAR lease coverage after a 5% fee was 1.4 times; and before fee or EBITDARM coverage was 1.8 times.

The underlying payer mix for the trailing 12 months ended September 30, 2013, for our same-property portfolio, which includes skilled nursing, assisted living, memory care, independent living, and properties with a combination thereof, was 58% Private Pay, 15% Medicare and 27% Medicaid. Within our same-property SNF portfolio, the underlying payor mix was 24% Private Pay, 27% Medicare and 49% Medicaid. As Wendy mentioned, we're in the planning stages for an Analyst Day and property tour in New York the morning of June 3 prior to NAREIT. We will be sending out save-the-date invitations in the upcoming weeks.

Thank you. I'll turn it over to Clint.

Clint B. Malin

Executive Vice President and Chief Investment Officer, LTC Properties, Inc.

Thank you, Pam. And good morning, everyone. In the fourth quarter, we further expanded our relationship with Anthem Memory Care under the terms of our exclusive development pipeline agreement by acquiring a parcel of land in Westminster, Colorado, to finance the construction of a 60-unit Private Pay memory care community, which Pam referred to in her comments. This brings to four the number of projects with Anthem, with three under construction. The first project with Anthem opened in the summer of 2013 and reached stabilization or reached stabilized occupancy within 120 days of opening. As of January 31, the community is at 100% occupancy.

Continuing with our development projects, the 77-unit combination assisted living and memory care community operated by Oxford Senior Living in Wichita, Kansas, which opened on November 1, has reached 37% occupancy as of January 31, which is in line with projections. On Monday of this week, the 106-bed skilled nursing replacement project in Wisconsin operated by Fundamental opened with an occupancy of 37% and a 19% skilled mix based on census.

We anticipate the opening of four additional development projects during the course of 2014, as well as completion of the majority of the open commitment for renovation and expansion projects related to our properties in the portfolio.

Although development has longer lead time for revenue generation, we believe that the risk-adjusted return [ph] of afforded (10:37) development projects for Private Pay seniors housing assets is a better long-term investment for our shareholders compared to the lower yields and lower rent coverages generally available in the market today for acquisitions; most notably on marketed transactions, given the significant amount of capital chasing Private Pay assets. Therefore, we are pursuing exclusive development pipeline agreements with multiple seniors housing operating companies to further grow our Private Pay portfolio with new and modernized assets.

Our pipeline remains strong, consisting of sale-leaseback and development opportunities, as well as expansion or replacement projects within our portfolio. The pipeline consists of both skilled nursing and Private Pay seniors housing opportunities. We anticipate investments for 2014 will be back-loaded in the second half of the year.

Now, I'll provide an update on our re-leasing initiative for the properties currently leased to Assisted Living Concepts and Extendicare as co-lessees. We're excited to have commenced the process and are very pleased with the high level of interest that this portfolio of assets has attracted during the initial marketing phase. The high level of interest is evenly distributed among the states and regional clusters where the communities are located, in addition to interest from a number of companies in leasing the entire portfolio.

Interested parties include large organizations with multi-state footprints, companies with strong regional concentrations and single-state operators. The upcoming lease expiration with ALC and Extendicare gives us a tremendous opportunity to improve our diversifications and broaden our tenant base.

As stated in our press release issued on January 14, we have retained CS Capital Advisors as our advisor, who is running the process for us on this transition. The two master leases for this portfolio of 37 assisted living communities consisting of 1,430 units expire on December 31, 2014, giving us ample time to secure the best suited operators for these communities.

Transitioning the communities to new operators prior to January 1, 2015, will require the consent and cooperation of both ALC and Extendicare. Therefore, we're running the process with the expectation that the new operators will begin leasing the communities on January 1, 2015. However, if we can reach an amicable agreement with ALC and Extendicare for an early lease termination that is in our shareholders best interest, it's possible for the transition of communities to occur sooner than 2015.

The bidding phase for this transaction commenced with the distribution of books to interested parties during the first week of February. We've established target dates in which to commence the negotiation and due diligence phases for this transaction, and look forward to providing an update on our next earnings call.

Now I'll turn the call back to Wendy.

Wendy L. Simpson

Chairman, President & Chief Executive Officer, LTC Properties, Inc.

Thank you, Clint. Approximately three years ago, we began seeing the prices of senior housing assets rise again and the prices, again, moving out of the range we set for our underwriting goal. Still we were seeing opportunities in the skilled nursing transaction.

In 2011, we made approximately $100 million in acquisitions with the majority being in the SNF assets. So we began looking at what we could do to successfully invest in more Private Pay assets and decided what we would like to invest in assets that address the growing needs of people needing memory care facilities.

We began looking for the smaller emerging and developing companies that had a memory care platform and found partners to develop new properties. Knowing that the development cycle is longer and has more risk than a sale-leaseback transaction, we've been careful in our partner selection and the size of the property being developed

Then we rolled into 2012 and we do approximately $167 million in underwriting, but are able to underwrite and develop two Private Pay properties and two state-of-the-art skilled nursing properties. Of those underwritten in that year, both of the memory care and assisted living properties have opened, as Clint mentioned, and are exceeding their projections or are meeting their projections. One of the SNF developments opened and was a replacement of a very old property, and the other SNF property will open this year.

In 2013, we did only one straight sale-leaseback for the $14.4 million that Pam talked about, and it was a SNF property. We did a terrific $124.4 million loan underwriting, which Pam talked about. However, this also is a SNF asset. We also underwrote three development properties for memory care, assisted living; and they will be opening in 2012.

But let's talk about the investments in the SNF assets. Yes, we're very interested still in doing sale-leaseback transaction with SNF operators, but we're getting more selective in the assets we'll invest in. There has not been significant investing in new skilled nursing assets in many years. There has been and continues to be investing and updating and repositioning of SNF assets over the years, and we've invested significant dollars in our own portfolio of SNF assets.

However, just as we decided three years ago that to get the types of value of memory care and assisted living assets that we would like, we need to look at investing in more state-of-the-art SNF rehab properties from the development's building point of view. We already have a rolodex to use an ancient word in concept of very experienced and qualified SNF operators, and several of them are interested in and experienced in developing and building skilled nursing properties that have – and have great ideas as to what the new generational SNF should look like.

The building we have under construction with Carespring in Kentucky is an example of a new model geared more directly to the shorter stay for rehabilitation, rather than the historic custodial SNF care. We look forward to doing other projects with Carespring. This year we're going to look at our portfolio through a slightly different lens. Are there assets in our SNF portfolio that we should proactively sell? Some of our SNF assets are older and most have very nice coverage, but where in the healthcare will they be in five or 10 years.

This year, for instance, we have an operator who operates three SNF properties for us. One covers 1.33 times; and the other two are in a master lease and cover five times. The operator does not have an option of renewing at the end of this year. So during this year we will be talking to them and other operators about doing replacement properties and about increasing the rent.

We recognize we are cognizant of the comments about overdevelopment. We're carefully selecting our projects and our partners. We are not restricting our opportunities to the top 31 MSAs and believe there are significant opportunities in the smaller, robust and growing areas of the United States. Right now, if we do no additional acquisitions and just fund the projects we have ongoing, we will have less than $50 million outstanding on our line of credit at the end of 2014.

Our debt maturity ladder is in our supplemental. And without additional sale-leaseback activity, we have no great need to borrow. However, we may consider borrowing to lock in lower rates ahead of a deal, but I do not see – and my management team and Board agree with me, we don't see an equity raise in the near future.

For guidance for the year, assuming no sale-leaseback or accretive deals before year-end, I expect our normalized FFO will be between $2.56 and $2.58. We look forward to adding to our FFO by converting some of the deals in our pipeline and continue to build our relationships with our operators and new operators we're meeting.

Thank you for taking time to listen to us today. I'll now open the call to questions.

QUESTION AND ANSWER SECTION

Operator: We will now begin the question-and-answer session. [Operator Instructions] And our first question comes from John Roberts of Hilliard, Lyons. Please go ahead.

John M. Roberts
Analyst, J.J.B. Hilliard, W.L. Lyons LLC
Q

Hey, Wendy.

Wendy L. Simpson
Chairman, President & Chief Executive Officer, LTC Properties, Inc.
A

Hi, John.

John M. Roberts
Analyst, J.J.B. Hilliard, W.L. Lyons LLC
Q

Before I mention my question, nice to see Jim come back on board.

Wendy L. Simpson
Chairman, President & Chief Executive Officer, LTC Properties, Inc.
A

Thank you.

John M. Roberts
Analyst, J.J.B. Hilliard, W.L. Lyons LLC
Q

Yeah, say hello to him for me, please.

Wendy L. Simpson
Chairman, President & Chief Executive Officer, LTC Properties, Inc.
A

We're very happy to have him.

John M. Roberts
Analyst, J.J.B. Hilliard, W.L. Lyons LLC
Q

Yeah, it's nice. Does guidance include the impact of the development projects you've got coming online?

Wendy L. Simpson
Chairman, President & Chief Executive Officer, LTC Properties, Inc.
A

Yes, it does.

John M. Roberts
Analyst, J.J.B. Hilliard, W.L. Lyons LLC
Q

Okay. And it seems like with you guys doing more development versus acquisitions, is that going to increase the G&A expense going forward at all, do you think, or should we anticipate G&A somewhat in the same area?

Pamela J. Shelley-Kessler
CFO, Secretary, EVP & Head-Investor Relations, LTC Properties, Inc.
A

Yeah. Hi, John. This is Pam. Yeah, I think using a run rate of $2.9 million for next year – $2.9 million a quarter is a better guidance than the $2.7 million, $2.8 million we've historically run. So yeah, guidance for G&A, about $2.9 million.

John M. Roberts
Analyst, J.J.B. Hilliard, W.L. Lyons LLC
Q

Right. And great that you're having an Analyst Day. Looking forward to seeing you.

Pamela J. Shelley-Kessler
CFO, Secretary, EVP & Head-Investor Relations, LTC Properties, Inc.
A

Yeah. We're looking forward to hosting everyone there.

John M. Roberts
Analyst, J.J.B. Hilliard, W.L. Lyons LLC
Q

Right. Thanks, guys.

Wendy L. Simpson
Chairman, President & Chief Executive Officer, LTC Properties, Inc.
A

Thank you.

Operator: Our next question comes from Karin Ford of KeyBanc. Please go ahead.

Karin A. Ford
Analyst, KeyBanc Capital Markets, Inc.
Q

Hi, good morning.

Wendy L. Simpson
Chairman, President & Chief Executive Officer, LTC Properties, Inc.

A

Hi, Karin.

Karin A. Ford
Analyst, KeyBanc Capital Markets, Inc.

Q

My first question is, Brookdale and Emeritus, they're obviously both large tenants of yours. Can you just talk about what you think the implications of the merger might be on your credit for those leases and whether or not you have any purchase options embedded in those leases?

Wendy L. Simpson
Chairman, President & Chief Executive Officer, LTC Properties, Inc.

A

No purchase options. We only have two with Emeritus and 35 with Brookdale. So it's not much of an impact on us. I think it's great that they're creating this new company, and we've been working closely with Brookdale to do some development or do some improvements on their properties. I'm just hoping that their attention isn't diverted considerably and we can go forward with some of those projects that we've been talking to them about.

Karin A. Ford
Analyst, KeyBanc Capital Markets, Inc.

Q

Okay, thanks. Next question is on the ALC process. Is your plan currently to re-lease all of the properties or would you consider selling some of them?

Wendy L. Simpson
Chairman, President & Chief Executive Officer, LTC Properties, Inc.

A

Right now, we're going towards re-leasing properties, but there might one or two on an off-market type of thing we would sell. But right now, we're planning on re-leasing all of them and we're very pleased with the level of attention or level of interest. Just the other day, we've got three more calls from companies we haven't – hadn't even been on our radar screen.

Karin A. Ford
Analyst, KeyBanc Capital Markets, Inc.

Q

Given the level of interest, and I know you spend a lot of time touring the properties and looking at them recently. What's your best guess on where the rent levels end up once you're done with the re-leasing process? Do you think it will be up, down, the same? Do you have just sort of an order of magnitude?

Wendy L. Simpson
Chairman, President & Chief Executive Officer, LTC Properties, Inc.

A

I don't have a guess at all. Hopefully, by our second quarter, we'll be able to talk about that more. But right now, I'm planning on collecting every last penny of rent from Assisted Living Concepts this year, and that's what's in our projection.

Karin A. Ford
Analyst, KeyBanc Capital Markets, Inc.

Q

Okay. And then just last question. How large is the portfolio of older skilled nursing that you might consider selling? And is there any – are there any dispositions included in the guidance?

Wendy L. Simpson
Chairman, President & Chief Executive Officer, LTC Properties, Inc.
A

No, no. I mean we just had our Board meeting a couple of days ago and we were talking about strategy of the company and we're talking about the types of assets that we're seeing out there and where we see the market going in the future, and then we just decided let's take a look at it. At a very high level, I think that some of our operators might like to buy their properties; none of them have the option to buy their properties other than in the mortgage that we just did. But if they flip it over to HUD or something, it certainly improves their margins and it frees up some capital that we can redeploy in newer assets. We may do nothing about it, but it's a strategy that we're going to look at this year where we haven't done it in the past.

Karin A. Ford
Analyst, KeyBanc Capital Markets, Inc.
Q

Do you have a sense for just how much of your skilled nursing portfolio would fall into sort of that older bucket?

Wendy L. Simpson
Chairman, President & Chief Executive Officer, LTC Properties, Inc.
A

No, I don't. I mean we...

Clint B. Malin
Executive Vice President and Chief Investment Officer, LTC Properties, Inc.
A

Karin, this is Clint. I think that we would do as part of this process is you really go back and then look at the asset as far as where they're located. I mean there's opportunities possibly to rebuild some of the older assets and sell some. So I think at this point it's hard to give any specificity, but we're going through the process and proactively managing that. And as we make more progress, we'll able to give more clarity on that front.

Karin A. Ford
Analyst, KeyBanc Capital Markets, Inc.
Q

Makes sense. Thank you.

Operator: Our next question comes from Rich Anderson of BMO Capital Markets. Please go ahead.

Rich C. Anderson
Analyst, BMO Capital Markets (United States)
Q

Thanks. Good morning.

Wendy L. Simpson
Chairman, President & Chief Executive Officer, LTC Properties, Inc.
A

Good morning.

Rich C. Anderson
Analyst, BMO Capital Markets (United States)
Q

So I just looked back – rushing back and looked to see that your guidance for 2013 was $2.46 to $2.48 to $2.37. Obviously there's a lot of moving around with the equity and the Detroit deal – Michigan deal, excuse me. But I'm curious, if you were to normalize the equity offering and the loan purchase, how do you think you would have stacked up versus your original guidance of $2.47 for 2013. I'm trying to get a sense of what the annualized impact of that whole transaction will be and whether or not you actually beat your guidance from last year when you kind of roll it all together?

Pamela J. Shelley-Kessler
CFO, Secretary, EVP & Head-Investor Relations, LTC Properties, Inc.
A

Hi, Rich. It's Pam. We never give guidance with acquisition or any type of capital markets assumption. So you wouldn't be comparing apples-to-apples. So what we do is give a base case on which then analysts can layer on their acquisition assumption and capital markets assumptions. So basically, if you took out acquisitions and you took out dispositions and you took out capital markets transactions debt and equity, we would have been at our guidance.

Rich C. Anderson
Analyst, BMO Capital Markets (United States)
Q

You would have been at your guidance. Okay.

Pamela J. Shelley-Kessler
CFO, Secretary, EVP & Head-Investor Relations, LTC Properties, Inc.
A

Yeah.

Rich C. Anderson
Analyst, BMO Capital Markets (United States)
Q

That's what I was looking for. Okay.

Pamela J. Shelley-Kessler
CFO, Secretary, EVP & Head-Investor Relations, LTC Properties, Inc.
A

Yeah, yeah.

Rich C. Anderson
Analyst, BMO Capital Markets (United States)
Q

Okay. Now you're not going to – I'm not going to ask you to put words in their mouth, but with Brookdale and Emeritus coming together and all the cost synergies that they're talking about, to what degree would you hazard a guess that this was supply motivated in the sense that they see competition coming on and they need to be more efficient engines. As a company, do you see that as an issue for the operating model? And are you less inclined to go after a RIDEA deal right now, or am I stretching too much on that?

Wendy L. Simpson
Chairman, President & Chief Executive Officer, LTC Properties, Inc.
A

Well, we're not interested right now in doing a RIDEA deal when we haven't done any. I guess what they were looking at in terms of their synergies were quite a driver in this transaction. I feel sorry for people in Seattle. I assume that's going to be the place that they're going to have most employees leaving. But they, like the big REITs, were looking for transactions to help them move forward because their occupancies have been very good; and unless they could build more units, this is how they have to grow. I think it gives a great opportunity for the smaller operators to look at growing individually. So they'll be taken out of the market for a while as they, I guess, work on their combination. I was totally shocked, but somewhat pleased to see a significant transaction like that happen.

Rich C. Anderson
Analyst, BMO Capital Markets (United States)
Q

Are you all worried about the supply picture in the senior housing space? In particular in your case, memory care?

Wendy L. Simpson
Chairman, President & Chief Executive Officer, LTC Properties, Inc.
A

In terms of availability of...

Rich C. Anderson
Analyst, BMO Capital Markets (United States)
Q

Competition for your – competition for – no, no, I mean supply, new supply coming online, a lot of its memory care?

Clint B. Malin
Executive Vice President and Chief Investment Officer, LTC Properties, Inc.
A

Rich, this is Clint. I think it all goes down to market specifics.

Rich C. Anderson
Analyst, BMO Capital Markets (United States)
Q

Yeah.

Clint B. Malin
Executive Vice President and Chief Investment Officer, LTC Properties, Inc.
A

And it depends on where you're at and the level of activity and the barriers to entry in those markets. So a great example is the memory care property we opened in mid-2013. That effectively was stabilized at 120 days following opening. So I think it goes down to underwriting in a specific market. I think you're going to find markets that have oversupply and you're going to have markets that don't. I think it's being very prudent in underwriting, understanding your markets and partnering with the right company as Wendy mentioned in her comments.

Rich C. Anderson
Analyst, BMO Capital Markets (United States)
Q

Okay. My last question, I'll yield, your guidance, does it have any impact from the transition of ALC? I know it happened late in the year, but is it just not contemplated right now because at this point it's a 2015 financial event?

Wendy L. Simpson
Chairman, President & Chief Executive Officer, LTC Properties, Inc.
A

Correct.

Rich C. Anderson
Analyst, BMO Capital Markets (United States)
Q

Okay. So there's no impact from that?

Wendy L. Simpson
Chairman, President & Chief Executive Officer, LTC Properties, Inc.
A

No impact.

Rich C. Anderson
Analyst, BMO Capital Markets (United States)
Q

Okay, wonderful. Thank you.

Wendy L. Simpson
Chairman, President & Chief Executive Officer, LTC Properties, Inc.
A

Thank you.

Operator: Our next question comes from Daniel Bernstein of Stifel. Please go ahead.

Dan M. Bernstein
Analyst, Stifel, Nicolaus & Co., Inc.
Q

Hi, good morning.

Wendy L. Simpson
Chairman, President & Chief Executive Officer, LTC Properties, Inc.
A

Hi, Dan.

Dan M. Bernstein
Analyst, Stifel, Nicolaus & Co., Inc.
Q

Hi. I wanted to understand in terms of the development that you're looking at, are you now looking at – you indicated you were looking at skilled nursing. Are you looking beyond memory care as well in terms of, say, independent living on the seniors housing side or is that not as attractive as memory care?

Clint B. Malin
Executive Vice President and Chief Investment Officer, LTC Properties, Inc.
A

Dan, this is Clint. Right now, we're not looking at independent. Most of it has been in free-standing memory care and combination communities with assisted living and memory care. If it was IL as a component of a continuum, we might look at that. I know that there are some operators that have development projects that have smaller combination of IL. So it would have to be a component of an overall continuum for us to consider that.

Dan M. Bernstein
Analyst, Stifel, Nicolaus & Co., Inc.
Q

Okay. And in terms of the disposition of assets, which I think is a very good strategy in this market, are you thinking about the opportunities to do seller financing was well. I'm not sure what's the availability of HUD there and certainly the timeframe for when a buyer would have to go ahead – how long it takes a buyer to go ahead and get HUD financing. Do you think there is opportunities for you to provide some seller permanent or bridge financing as well. Just to offset some of the potential dilution that's there.

Wendy L. Simpson
Chairman, President & Chief Executive Officer, LTC Properties, Inc.
A

Sure. This is like 2014 nostalgia year. We bring Jim on and then we revert to Andre's original strategy which was to provide mortgages to individual operators. We've come forward to be back where we started. But in certain cases I wouldn't rule it out. It's not a main strategy of ours to move from a very secure position of owning the property to letting somebody else own it and owe us money. But in unique circumstances we might be able to do that, not ruling anything about, but then that moves more to our mortgage line and we don't want to mess up being an equity REIT type of thing. So not saying no, but it's not our main strategy.

Dan M. Bernstein
Analyst, Stifel, Nicolaus & Co., Inc.
Q

Okay. And I've spoken to a few other REIT managements who lamented a little bit about I mean the lack of quality of skilled nursing operators that are out there. And I don't know if they're sort of referring that there's not so many large operators and a lot of small ones. I just wanted to get a little bit more color about how you're thinking about the quality of the operators that are potentially out there for you to go ahead and do transactions with, whether it's acquisition or new development. And what's the kind of criteria that you're thinking about that you need to go ahead and do a transaction with an operator?

Clint B. Malin
Executive Vice President and Chief Investment Officer, LTC Properties, Inc.
A

Sure, Dan. This is Clint. Dan, a good question to ask. And as you know, the market is very fragmented in the skilled nursing space. So you have a lot of different type of operators out there. And I think it is as the acuity of skilled nursing continues to increase and they play a more vital component in the post-acute delivery system, I think partnering with those organizations that have a higher level of sophistication and the capital structure to reinvest in technology is a critical aspect. And those are the type of companies that we are focused on, that know their geographic markets; they have relationships with hospital systems or managed care providers in those specific markets. So they're not everywhere. But in certain markets, you do find companies like that and those are the companies that we're trying to partner with.

Dan M. Bernstein
Analyst, Stifel, Nicolaus & Co., Inc.
Q

All right, all right. Sounds good. Thank you, and thank you very much for taking the questions.

Wendy L. Simpson
Chairman, President & Chief Executive Officer, LTC Properties, Inc.
A

Thanks, Dan.

Operator: Our next question comes from Todd Stender of Wells Fargo. Please go ahead.

Todd J. Stender
Analyst, Wells Fargo Securities LLC
Q

Great, thank you. Good morning, everybody. I think you mentioned that it's possible that the ALC lease gets terminated ahead of schedule. If that were to happen, how soon could we see something?

Clint B. Malin
Executive Vice President and Chief Investment Officer, LTC Properties, Inc.
A

Todd, this is Clint. As I mentioned in my prepared comments that we'd have to be in negotiation with ALC and Extendicare. So we would have to reach an agreement with them on that. But as we're going through the process right now, we're going to be – we're still in the bidding phase on the transaction and we're going to be sometime in the second quarter before we're into – the latter part of second quarter before we're into the negotiation phase as well as due diligence. So it would be a very pretty short period, if anything, most likely for an early transition.

Todd J. Stender
Analyst, Wells Fargo Securities LLC
Q

That's helpful. And are you budgeting for any CapEx that you'd be putting into the properties just to get them re-leased?

Clint B. Malin
Executive Vice President and Chief Investment Officer, LTC Properties, Inc.
A

The buildings – Wendy has toured quite a few of them, I've been out to some of them as well. A general view, the properties are in very good condition and ALC was good about redeploying capital into the buildings for their strategy that they were pursuing in their Private Pay model. There undoubtedly will be some CapEx. We don't know the extent of that. And given the interest that we have from the various companies, and looking at partnering or looking at leasing these buildings from us – will be part of that whole negotiation process and entering into new leases. So at this point, it's hard to give any specificity.

Wendy L. Simpson
Chairman, President & Chief Executive Officer, LTC Properties, Inc.
A

But the CapEx would be there. It would be capitalized...

Todd J. Stender
Analyst, Wells Fargo Securities LLC
Q

Yeah, it would be capitalized.

Wendy L. Simpson
Chairman, President & Chief Executive Officer, LTC Properties, Inc.
A

...so it wouldn't affect our FFO. And I don't think it'll be in the millions and millions and millions of dollars. So...

Clint B. Malin
Executive Vice President and Chief Investment Officer, LTC Properties, Inc.
A

I would think there – Todd, I think there might be more actually into some expansion opportunities at the properties, looking at memory care or – it's a small addition to certain properties. So that may be hopefully where money is deployed on additional revenue enhancing capital investments.

Todd J. Stender
Analyst, Wells Fargo Securities LLC
Q

Okay, that's helpful. Thank you, Clint. And just staying with you Clint, you highlighted a couple of the development projects that I think were both 37% leased. I just want to get a sense of how long it takes to get to a stabilized level. I guess if you consider stabilized level in the mid-80% range, just how long does that kind of take?

Clint B. Malin
Executive Vice President and Chief Investment Officer, LTC Properties, Inc.
A

Most of the forecasts to get to that are about 18 months after [ph] CMO (35:30). Again, that's on the conservative side. So it depends on the specific markets. But I would use 18 months sort of as that target stabilization point.

Todd J. Stender
Analyst, Wells Fargo Securities LLC
Q

Okay, thanks. And, Pam, just if you can disclose this, what is the accretive impact – I guess now that you've deployed the equity from May, you've deployed the capital in your Michigan loan investment. If you look at how it shakes out on an accretive basis to FFO, have you broken that out?

Wendy L. Simpson
Chairman, President & Chief Executive Officer, LTC Properties, Inc.
A

I have not broken it out, we have not. But we will get the full accretive impact in our guidance for this year. The full accretive impact is there. So if you compare what we did this year to our guidance for next year, that's predominantly everything that we did this year, not just the Michigan loan, but the Trinity acquisition and all of our development that comes online.

Todd J. Stender
Analyst, Wells Fargo Securities LLC
Q

Okay, great. Thank you.

Operator: Our next question comes from Michael Carroll with RBC Capital Markets. Please go ahead.

Michael Carroll
Analyst, RBC Capital Markets LLC
Q

Thanks. Hey, Wendy. I know you have two options on re-leasing the ALC assets: one, where you give more of the upside to the operator and recognize minimal, if any, dilution; and the second is where you share in the upside and really take on no dilution or maybe some accretion. Can you describe how those discussions are going and what option you plan on taking?

Clint B. Malin
Executive Vice President and Chief Investment Officer, LTC Properties, Inc.
A

Well, this is Clint. At this point, we're still in the bidding process for the package. So I think we need to have a little bit more time elapse and get a better sense of where the parties are on the transaction before we'll be able to speak intelligently regarding that question.

Wendy L. Simpson
Chairman, President & Chief Executive Officer, LTC Properties, Inc.
A

But I think, Clint, that it's going to be a mixed bag, it's not one or other. You know that certain areas, Washington, Oregon, Idaho, are more challenged. So there is much more upside in those properties. So if we go regional operator there, it might beneficial for us to participate in the upside based on a certain group of assets. So I would say if there were a national solution, we probably wouldn't base much of it on an upside. But if there is a regional solution, I can see in certain packages there would be an upside transaction and other packages there would just be straight-line rent.

Michael Carroll
Analyst, RBC Capital Markets LLC
Q

Okay, great. And then with Clint, can you describe more of what you're seeing on the investment side, the size of your pipeline, mix between SNF and senior housing. And to your comments, it seems like you're getting even more encouraged by the development side versus acquisitions.

Clint B. Malin
Executive Vice President and Chief Investment Officer, LTC Properties, Inc.

A

We definitely are encouraged by the development side. We're seeing in our discussions with various operating companies that them entering into JV structures on development projects exposes them to the recap risk at the five-year mark or so. And operating companies are looking at growing a platform or looking at ways to go ahead and effectively find permanent financing. So when you find the right company that has a growth-oriented operating platform with development capabilities, I think there's a lot of opportunities for us to partner together to do development projects. Right now, looking at the pipeline, we still are consistently in the $250 million mark. There is a number of development projects that we're seeing in that. And so, I'd say probably about 40% to 50% development and the other half would be split between skilled and assisted.

Michael Carroll
Analyst, RBC Capital Markets LLC

Q

And the acquisitions is still mostly SNF?

Clint B. Malin
Executive Vice President and Chief Investment Officer, LTC Properties, Inc.

A

It'd be mainly SNF. We are seeing some assisted living opportunities. I think for the assisted living opportunities to work, it's got to be targeted more towards traditional sale-leaseback where somebody is not monetizing enterprise value to where there's coverage is left in the transaction. So we are finding some of those unique opportunities that would be part of our pipeline.

Michael Carroll
Analyst, RBC Capital Markets LLC

Q

Great, thanks.

Wendy L. Simpson
Chairman, President & Chief Executive Officer, LTC Properties, Inc.

A

Thank you, Mike.

Operator: Our next question is a follow-up question from Rich Anderson of BMO Capital Markets. Please go ahead.

Rich C. Anderson
Analyst, BMO Capital Markets (United States)

Q

Sorry, thanks for taking it again, and I apologize for keeping things going. So you mentioned with ALC that everything is its own separate case in terms of how you structure leases, CapEx and all the rest. But what would be a general rule of thumb in terms of transitioning an operator? Would it take a couple of weeks or months or could there be some significant downtime that you might have some dilution to deal with in 2015?

Clint B. Malin
Executive Vice President and Chief Investment Officer, LTC Properties, Inc.

A

I think the biggest hurdle, Rich, on the transfer would be a regulatory perspective in getting approval from the states. But given that we've had this much lead time prior to the expiration, I don't see the regulatory hurdle being an issue at this point.

Rich C. Anderson
Analyst, BMO Capital Markets (United States)
Q

Okay. And then what do you call – what do you think the value proposition is of building skilled nursing facilities? And the reason I'm asking is Medicare/Medicaid is what it is, and how do you get compensated for newer building if those numbers are kind of set in stone? Are you just looking for a higher quality mix, is that it?

Clint B. Malin
Executive Vice President and Chief Investment Officer, LTC Properties, Inc.
A

Correct, it's looking for a higher quality mix. And you've got to be able to build these in markets where there are some barriers to entry or you don't have too many new buildings competing against each other, but that's the opportunity is the higher skilled mix.

Rich C. Anderson
Analyst, BMO Capital Markets (United States)
Q

Okay. And that would go to – what would be a target do you think for a new development for acute mix?

Clint B. Malin
Executive Vice President and Chief Investment Officer, LTC Properties, Inc.
A

You're probably looking at – on some of our projects like with Carespring, which Wendy mentioned, we're looking at Medicare mix, and that is probably about 25% based on census; and then you layer Private Pay on top that, so you're anywhere on your skilled from 25% to maybe 40%.

Rich C. Anderson
Analyst, BMO Capital Markets (United States)
Q

Okay. And then...

Clint B. Malin
Executive Vice President and Chief Investment Officer, LTC Properties, Inc.
A

That's based on occupancy, not revenue. That's occupancy.

Rich C. Anderson
Analyst, BMO Capital Markets (United States)
Q

Okay. On census, okay. And then last one for Pam. You have kind of what I would call an equivalent investment grade rating. Is it too soon to go down the investment grade path or do you need to get bigger or where are you at in that thought process?

Pamela J. Shelley-Kessler
CFO, Secretary, EVP & Head-Investor Relations, LTC Properties, Inc.
A

Yeah. We still need to get a little bit bigger. The threshold is about $2 billion of market cap.

Rich C. Anderson
Analyst, BMO Capital Markets (United States)
Q

Okay. All right, thank you.

Pamela J. Shelley-Kessler
CFO, Secretary, EVP & Head-Investor Relations, LTC Properties, Inc.

A

So if you all put out a buy that will help. Just saying.

Operator: Our next question is a follow-up question from Karin Ford of KeyBanc. Please go ahead.

Karin A. Ford
Analyst, KeyBanc Capital Markets, Inc.

Q

Yeah, hi. What would be e a – will be required to return on a ground-up brand new skilled nursing development?

Clint B. Malin
Executive Vice President and Chief Investment Officer, LTC Properties, Inc.

A

Karen, this is Clint. We have three skilled projects that we've worked on. The one that just opened this week plus the one that opened in 2013, and the additional Carespring. Those projects have been right around the 9% mark.

Karin A. Ford
Analyst, KeyBanc Capital Markets, Inc.

Q

But those were renovations or replacements, right, that wasn't sort of brand new facility?

Clint B. Malin
Executive Vice President and Chief Investment Officer, LTC Properties, Inc.

A

Two were replacements. One is a brand new supply, and that new supply is our project with Carespring in Kentucky.

Karin A. Ford
Analyst, KeyBanc Capital Markets, Inc.

Q

Okay. And then last question, Clint, for you as well. You said no sale-leasebacks or investments until the second half of the year. Did I catch that?

Clint B. Malin
Executive Vice President and Chief Investment Officer, LTC Properties, Inc.

A

Yes, it will be back loaded in the second half. Correct.

Karin A. Ford
Analyst, KeyBanc Capital Markets, Inc.

Q

Okay. So nothing – you don't have anything under contract or under LOI or anything today?

Clint B. Malin
Executive Vice President and Chief Investment Officer, LTC Properties, Inc.

A

Correct.

Karin A. Ford
Analyst, KeyBanc Capital Markets, Inc.

Q

Okay, thank you.

Clint B. Malin
Executive Vice President and Chief Investment Officer, LTC Properties, Inc.

A

We're actively working on converting some of those to signed opportunities.

Karin A. Ford
Analyst, KeyBanc Capital Markets, Inc.

Q

Okay. Thanks.

Operator: [Operator Instructions] And this does conclude our question-and-answer session. I would like to turn the conference back over to Wendy Simpson for any closing remarks.

Wendy L. Simpson
Chairman, President & Chief Executive Officer, LTC Properties, Inc.

Thank you, Ed, and thank you all for joining us today. Again, we look forward to 2014. We look forward to our next call and talking about continuing to move LTC forward. Thank you very much. Have a great day.

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