LTC Properties, Inc.

Third Quarter 2014 Analyst and Investor Call

November 4, 2014 at 8:00 a.m. Pacific

CORPORATE PARTICIPANTS

Wendy Simpson – *Chief Executive Officer and President*

Pam Kessler – *Executive Vice President and Chief Financial Officer*

Clint Malin – *Executive Vice President and Chief Investment Officer*

PRESENTATION

Operator
Good morning and welcome to the LTC Properties, Inc. Third Quarter 2014 Analyst and Investor call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the * key followed by 0. After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press * then 1 on a touchtone phone. To withdraw your question, please press * then 2.

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 risks and uncertainties that may cause actual results and events to differ materially. These risks and uncertainties are detailed in LTC Properties, Incorporated, filings with the Securities and Exchange Commission, including the company's 10-K dated December 31, 2013. Please note, this event is being recorded.

I would now like to turn the conference over to Wendy Simpson, CEO and President. Please go ahead.

Wendy Simpson
Thank you, Andrew. 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 the third quarter of 2014. After Pam's comments, Clint Malin, our Chief Investment Officer, will talk about the resolution of the 37 properties currently under lease with Enlivant and Extendicare. He will also comment on the performance of our portfolio and he will give you some color regarding our pipeline and development projects.

Before I turn the call over to Pam, I want to say that we've all been looking forward to this call, so that we could put an answer to the last questions about the former Assisted Living Concepts properties and put this initially wonderful relationship which turned sour well before its due date behind us. However, based on current recent announcements regarding merger activity in the healthcare REIT space, I fear that I can anticipate having the focus around LTC go from what about the Assisted Living Concepts assets to who or when is LTC going to merge with another REIT.

So I do want to stress that our focus is now completely on growing through strategic development with our operators and a select few new operators that we are currently negotiating with and by converting some of our sale leaseback opportunities into completed deals in 2015.

At this time, I will turn the call over to Pam.

Pam Kessler
Thank you, Wendy. Normalized FFO increased 13% this quarter to $22.5 million from $20 million in the second quarter of last year. Normalized fully diluted FFO per share was $0.64 this quarter compared to $0.57 a year ago. Revenues for the quarter increased 14% or $3.7 million year-over-year, primarily due to investments made in the second half of 2013 and completed development projects, partially offset by property disposals in 2013 and 2014.

Interest expense increased $589,000 from the third quarter of last year, due primarily to the sale of senior unsecured notes to fund acquisitions and development. General and administrative expenses were $238,000 higher this quarter, compared to a year ago, due to expenditures related to the new website, logo design, Analyst Day and the timing of certain other expenditures.

During the quarter we invested $8.69 million in properties under development and capital improvement projects at a weighted average yield of 9%. Capitalized interest for the quarter was $474,000. Subsequent to September 30th, we purchased a parcel of land in Illinois for $1.4 million which we added to a master lease with Anthem. Simultaneous with the purchase, we entered into a development commitment to build a 64 unit memory care property for $10.6 million excluding the land price.

During the quarter, we sold $30 million senior unsecured notes under our shelf agreement with Prudential. These notes bear interest at 4.5% and have a 12-year maturity. Subsequent to September 30th, we amended our unsecured credit agreement increasing commitments from $240 million to $400 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 two new banks to our bank group and extended the maturity of the credit agreement to October 2018 with a one year extension at our discretion.

Currently we have borrowings of $24 million outstanding and $376 million available under our line of credit. Also subsequent to September 30th, we prepaid $1.4 million of bonds secured by five assisted living properties in Washington leased to Extendicare and Enlivant. Thus we no longer have any secured debt outstanding on our balance sheet.

At the end of the quarter, our investment grade metrics remained one of the best in the healthcare REIT universe, with debt to trailing 12 months normalized EBITDA of 2.9 times and normalized trailing 12 months fixed charge coverage ratio of 6.2 and debt to enterprise value of just under 19%.

I will now turn the call over to Clint.

Clint Malin

Thank you, Pam. Good morning, everyone, and thank you for joining us today. As Wendy mentioned, we are pleased to report that we have reached a resolution on our portfolio of 37 assisted living properties co-leased to Enlivant, an affiliate of Extendicare. We will be releasing 20 of the properties and selling 16. As to the final property in the portfolio due to significant occupancy challenges, we have given consent to Enlivant to close the property. We are exploring sale and lease options for this property, which has a net book value of $954,000 and is subject to a ground lease.

Relating to the releasing of the 20 properties, we are very pleased to be expanding our existing relationship with Senior Lifestyle by adding 13 of the 20 properties, consisting of 500 units to an existing master lease. Beginning January 1, 2015, the initial term of the amended and restated master lease that will be 15 years and rent will increase by $5.1 million over the current annual rent in the existing master lease for a total initial rent of $6.6 million and increasing annually by 2.6%.

The other 7 properties, all located in Texas, consisting of 278 units will be leased to Veritas InCare under a new 10-year master lease. Beginning January 1, 2015, the initial rent will be $1,461,000 increasing 2.5% annually. Both master leases will provide us with the potential for additional rent attributable to participation in revenue growth at the properties over a predetermined base amount. Additionally, the initial cash yield on the 20 properties released to Senior Lifestyle and Veritas is comparable to the cash yield in 2014 under the expiring master leases with Extendicare and Enlivant.

Given the low occupancy of the Pacific Northwest properties, we explored both lease and purchase proposals, as I mentioned on our previous earnings call. Ultimately, given the occupancy challenges at these properties, we decided that recycling capital is a better option for LTC. Therefore, after running a thorough process in which we were assisted by CS Capital Advisors, we entered into an agreement with an affiliate of Enlivant to sell 16 properties, consisting of 615 units, which includes two properties in Arizona for a sales price of $26,465,000 equating to $43,000 per unit. We expect to record a gain on the sale of approximately $3.9 million with closing expected to occur in December of this year. Extendicare and Enlivant are obligated to pay rent in accordance with the terms of the current master leases through December 31st of this year.

Turning to the portfolio, lease coverage for the trailing 12 month period in second quarter 2014 remains consistent and strong. I will caveat that the following coverage metrics are derived from unaudited financial statements provided to us by our operators and are reported one quarter in arrears. For our skilled nursing portfolio, EBITDARM coverage is 2.29 times and our assisted living portfolio, excluding the properties leased to Extendicare and Enlivant, is 1.66 times and 1.4 times, including these properties. EBITDAR coverage, including an allocated management fee of 5% of revenues, is 1.69 times for skilled nursing and 1.42 times for assisted living, excluding Extendicare and Enlivant, and 1.18, including them.

Compared to the previous quarter, occupancy has remained consistent across all property types. Occupancy for the trailing 12 month period ended first quarter 2014 is as follows. Assisted living, excluding the Extendicare and Enlivant portfolio, is 89.5% and including these properties is 80.2%. Skilled nursing is 79.9% and range of care is 83.4%. Our quality mix remained strong with almost 60% of our underlying rental revenue coming from private pay sources.

We continue to have success in our development program. During the quarter Anthem Memory Care opened our second development project with them in the Denver Metro area. After being open approximately six weeks, occupancy at the property was 37% as of September 30. Highline Place, our initial development project with Anthem, also in the Denver Metro area, remains at 100% occupancy. We continue to expand our relationship with Anthem and have entered the Chicagoland market with them via our land acquisition in Burr Ridge, Illinois which Pam referred to in her comments.

Anthem anticipates opening our third project with them located in Aurora, Colorado in mid-December of this year, followed by the opening of the fourth project in Q1 2015. Our development project in Wichita, Kansas with Oxford Senior Living, reached 95% occupancy as of September 30, which is ahead of projection and has been achieved within 12 months of opening the project.

On October 31st, our SNF development project with Carespring Health Care Management located in Coldspring, Kentucky in the Cincinnati Metro area received a certificate of occupancy and is anticipated that the first resident will be admitted in mid-November. Our pipeline remained strong at approximately $800 million, which includes sale leaseback and development opportunities as well as expansion and replacement projects within our portfolio.

Currently we have five fully executed LOIs representing $108 million of transactions with the exception of $11 million relating to a SNF investment, the remaining $97 million pertains to seniors housing properties. Of the $97 million, approximately 38 relates to 3 memory care development projects, the remaining $60 million relates to acquisition of 4 assisted living properties and 1 memory care property via two separate transactions that will be added to a master lease with an existing customer.

We anticipate one $10 million transaction will close in the fourth quarter with the remainder anticipated to close during the first quarter of 2015. Although these LOIs have been fully executed, I must caution that the deals remain subject to due diligence and therefore may not be converted to closed investments.

Now I will turn the call back to Pam so she can discuss the effects on FAD and FFO regarding the resolution of the 37 properties leased to Extendicare and Enlivant.

Pam Kessler
Thanks, Clint. I want to go over the solution resulting from this transaction so we are all on the same page in terms of cash and GAAP. I'm going to start with cash. The current cash rent that we are receiving on ALC properties totals $12 million. If you were to allocate that by unit or by property for simplicity, you would get approximately $6.6 million of cash rent allocated to the properties that we are keeping and releasing and $5.5 million related to the properties we are selling or closing.

The initial cash rent on the two portfolios we're releasing is $6.6 million. That results in approximately $0.15 per share FAD dilution before assuming any reinvestment of proceeds. We are assuming reinvestment of the sales proceeds of $26.5 million at 8%, which would result in incremental cash rent of approximately $2.1 million giving a dilution from the sale of approximately $3.4 million or $0.09.

Going to FFO, the current GAAP rent on the total portfolio is $11 million. If you were to allocate it by unit or by property for simplicity, you would get $6 million allocated to the properties that we are retaining and releasing and $5 million to the properties we are selling or closing. The new GAAP rent on the properties we are keeping are $8 million, so that is a dilution to FFO of $0.08 prior to any reinvestment of proceeds assumption. We are assuming that we reinvest the $26.5 million at 8% in a 10-year lease with 2.5% annual escalations, which would get you a GAAP rent of $2.4 million, resulting in a GAAP rent dilution to FFO of about a penny and a half.

And I will turn the call back over to Wendy.

Wendy Simpson
Thanks, Pam. As Clint mentioned, we have a nice level of transactions represented by fully executed LOIs. And it’s likely that we will close a small one before year-end but it also looks like our first quarter of 2015 will be very active.

Currently, several of our operators are sourcing deals and have requested that we consider being the financing source. We are experiencing much more activity in those opportunities than we had previously this year. These deals are relatively easier to do because the operator already knows our style of lease and is comfortable in knowing that we are eager to help them grow and prosper in their operations.

We hope to welcome two new operators into our development platform and are advanced in our discussions in negotiations with them. Based on the deals we see in the market, we decided to renew our bank line, expand the capacity and add two new banks. If we did not see opportunity for LTC, we could have saved significant dollars and fees and more than a few of Pam's brain cells.

At this time, I'm not changing our 2014 guidance. So we are likely to be on the low side of our guidance at around normalized FFO of $2.56, a penny up or a penny down, which does not include the additional cost of the $30 million.

Pam Kessler
It does include.

Wendy Simpson
It does include?

Pam Kessler
Yes.

Wendy Simpson
I gave you this, why didn't you correct it? Which does include the additional cost of the $30 million represented by the Prudential borrowing.

Thank you for dialing in and I will now open it up for questions. Thank you, Andrew.

QUESTIONS AND ANSWERS

Operator
We will now begin the question and answer session. To ask a question, you may press * then 1 on your touchtone phone. If you are using a speakerphone, please pick your handset before pressing the keys. If at any time your question has been answered and you would like to withdraw your question, please press * then 2. At this time we will pause momentarily to assemble our roster. The first question comes from Paul Morgan of MLV & Company. Please go ahead.

Joe Ng
Hi. This is Joe Ng, here for Paul. Could you provide more color on the revenue participation component of the new leases? Is it portfolio-wide or [indiscernible] assets and/or how much could it move the needle in the near-term on the new leases?

Clint Malin
Sure. This is Clint. It's based on each master lease and it basically functions on revenue growth over a predetermined baseline amount at different percentage participation. So we anticipate—again, looking at our modeling depending on where occupancy goes, these participating rents in total for both master leases could be somewhere between $300,000 to $900,000. So we are looking at possibly $0.01 to $0.03 on the participating rent.

Joe Ng
In 2015, or—?

Clint Malin
Going forward, I guess it's a function of derived on basically increases in occupancy. So, if the new operators can get in to make a tremendous amount of progress in increasing occupancy, then yes. But most likely, it will probably be modeled. Pam, what would you say for modeling?

Pam Kessler
Year three or four. I would give these properties a 12 to 24 month turnaround.

Joe Ng
Okay. I see and just one more quick question. Do you think the lack of acquisitions this year has been partly due to the primary focus on getting the 37 properties like released or is it more of a reflection of your appetite given the market pricing today?

Clint Malin
Well, we engaged an advisor to assist us, a CS Capital Advisors that was assisting on running the process for the 37. I think that one of the drivers on deal flow this year is a very competitive marketplace. You've seen a compression in cap rates and also you've seen transactions getting done what I will call as covenant light, that do not have much security or risk-adjusted parameters in their

lease on that. So we've just not been in a position where we wanted to bid up a transaction that high, to where it wasn't accretive for us.

Joe Ng
Okay. Thank you. Thanks very much.

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

Karin Ford
Hi. Good morning.

Wendy Simpson
Good morning, Karen.

Karin Ford
Just a question on that last point, regarding competition and cap rates. Can you just talk about what the pricing looks like on the four assisted living acquisitions that you guys have teed up, and talk about how low you'd be willing to go on a cap rate basis to compete in the SNF arena today?

Clint Malin
Sure. Those are 6.75% to 7% cap rates but one of the transactions has a low rate HUD debt associated with it, at about 3% rate. So our pricing on one of the transactions is a function of the HUD assumption that would come along with it and it's about 50% of the dollars on that transaction.

Wendy Simpson
And then she wanted to know cap rates on SNF.

Clint Malin
Sure. Cap rates on SNFs, you're probably looking at for higher-quality portfolio rated, probably 8% to 8.5% depending on the size and more standard one-offs, somewhere between 8.5% and 9% depending on the quality and location and the operator.

Karin Ford
And are you guys buyers at [indiscernible] skilled nursing today? Would you be?

Clint Malin
I think for the right transaction, Karin. It would depend again on the quality of the asset, the location, the operator and the security we have for that investment.

Karin Ford
Okay. Thanks. And next question, just on the Enlivant resolution. Could you just talk about how many bidders you had in both pieces, both the releasing and the sale process; and why you elected to ultimately the solution that you did, what the main sort of qualitative reasons for splitting it up and doing it the way you did?

Wendy Simpson
We had it to begin with, at the beginning of the year, we had probably 80 operators that we targeted and sent out in terms of interest in the portfolio. As the year went along, we realized that what we wanted to do was to regionalize and have more operators interested. The original strategy which I know I've talked about before was to sort of entice the newer operators to have an opportunity in these

properties. We found out in the Northwest, Washington, Oregon, Idaho that the occupancies were way too stressed for a newer operator to want to come in.

They don't have the capital to fund the working capital during this period of time. And I didn't think it would be a healthy thing for LTC to fund the working capital of new operators and continue to have to explain these Assisted Living Concepts properties to the investment community. So sometime in June or July, I recall walking into the conference room when we had had capital source—

Clint Malin
It was a board meeting.

Wendy Simpson
No, well, whoever—we had our advisors here. I can never remember their names.

Pam Kessler
CS Advisors.

Wendy Simpson
CS Advisors here. And Pam and Clint, they were talking about possibly selling these assets and I walked in and they thought I would be totally against it because I was up until that point. But seeing what the opportunities were, we were getting for the releasing. It became clear that for LTC, we were better off selling the assets. We changed our focus then on those properties to selling them. And we had three or four companies, larger companies who had come forward with interest in buying these properties.

So we had a competitive bidding going. When Enlivant evidenced interest in them, we went into negotiations with them and we think we got a very fair price based on the other opportunities we had for selling them to other operators. And we determined that the surety of closure and the non-messiness of changing operations was better with Enlivant than anyone else for those assets.

Going back to the assets on the other side of the country, we found that these two operators that we've done business with already, Veritas and Senior Lifestyle, were the best in terms of matching their current operations to those properties. So it was a very iterative process and we looked at many, many different configurations and this is what we came out with, Karin.

Karin Ford
Thanks for the color.

Wendy Simpson
Sure.

If I remember correctly on previous calls, I think you had said that the resolution of the ALC properties was one of the conditions towards—you guys moving towards an investment grade rating. Does that look like that might be a 2015 item and can you just give us your thoughts around your previous statements about plans to lever up with next round of investments?

Wendy Simpson
Sure.

Pam Kessler

Hi Karin, it's Pam. In terms of our outlook for investment grade rating, yes, it's definitely putting us behind us taking away the uncertainty, moves us forward in that direction. There is still the $2 billion marketing cap hurdle that we need to meet. So we need to continue to grow. Although we will do that accretively, we don't feel the pressure to do a non-accretive deal or a flat deal just to bulk up.

And an interesting thing has happened in private placement market with the insurance company, senior unsecured notes that we sell. That market has become very competitive and I have found pricing, especially in our last round of notes that we sold to be equal to that of the bond market, which in the past, it was not because it's a little more liquid. We paid maybe a little bit higher price than we would with a similar investment grade rating in the bond market. We recently received an upgrade from the NAIC which is the rating agency for the insurance company paper. We are now in NAIC 2 flat which would be the equivalent of a BBB.

So right now, I'm not feeling the overwhelming need to go to the rating agencies and access the bond market as long as the private placement insurance market stays as competitive. We like the fact that we can take down smaller amounts. I mean, something less than $250 million. We like the fact that we can stagger the maturities of that. So we can ladder our maturities to match our free cash flow.

So right now I'm probably cooling my heels on going to the rating agencies. But that is the function of size we will get to the point where we need to do $250 million placements at a time and I look forward to that. But right now, we're getting very well priced debt.

Karin Ford
Okay, thanks. And then, just last questions on the AVIV, Omega deal—not going to ask you who you're planning to merge with next. But just do you think it changes the competitive landscape for you guys out in the investment environment or do you feel like your deals continue to be with your existing customers primarily and you're finding enough smaller size stuff; you're not worried about it?

Clint Malin
This is Clint. We don't run across Omega as often as some of the other REITs and looking at transactions. AVIV, we would run across occasionally. I think that with Omega being a larger organization, probably looking at large transactions. I think that potentially could be a benefit for us in looking at some of the smaller transactions. That has sort of been our bread and butter investments over the past few years.

Karin Ford
Great. Thank you.

Wendy Simpson
Thank you, Karin.

Operator
The next question comes from the Rich Anderson of Mizuho Securities. Please go ahead.

Rich Anderson
Sorry, I might've missed this but did you give what the cap rate expectation is for the $26.5 million that you're selling?

Clint Malin
I did not give the cap rate because the negative cash flow, Rich.

Pam Kessler
I don't think the cap rate is the right way to look at it because there's turn around assets.

Rich Anderson
Okay. Okay, understood. Clint, when you said 8% to 8.5% cap rates on SNF assets today, were you talking about a cap rate or a lease rate?

Clint Malin
Lease rate.

Rich Anderson
Okay. Just wanted to make sure.

Clint Malin
Yeah.

Rich Anderson
All right. Now on the asset sales, back to the $26.5 million, would you—I understand that you're assuming some things about redeployment but would you consider a special dividend?

Wendy Simpson
We've talked about that, Rich, and we don't need to do it for tax purposes. We don't have to distribute the gain for tax purposes and we really feel that we can reinvest the proceeds for a better FFO, FAD and help grow the company again.

Rich Anderson
Okay. The other thing is on one of the drawbacks some of the reasons for the underperformance of these assets has been the—Enlivant's unwillingness to accept Medicaid. But how much are we really hanging our hat on that issue in order to get the occupancy back up to a reasonable level. It seems like that would only kind of move the needle about 10 percentage points or 10 basis points. Am I wrong about that is—or is Medicaid a much bigger percentage of the natural census for these assets?

Clint Malin
No. I think the biggest percentage of Medicaid, Rich, was in the Northwest, which that's one of the reasons why the occupancy is where it is now and we have occupancies on average in the Northwest in the 40% range on average. So in the other states, there's not been historically as much reliance on Medicaid. So, I think, as the new operators come in they have an option to re-brand these properties and seek the private pay residence and selectively fill with Medicaid as needed and that may be on a per property basis, as opposed to on a statewide or portfolio basis as the previous management company had made that decision regardless of property, it was the decision across the company.

Rich Anderson
So how much is Medicaid as a percentage of the Northwest portfolio centralized?

Clint Malin
Historically or today?

Rich Anderson
Well, not today, historically, I guess.

Clint Malin
Historically, in the Northwest, I'm pulling the number, just one second. In the Northwest we are looking at about, before the decision by Enlivant or Assisted Living Concepts to exit that program, it was probably about 50% of the occupancy.

Rich Anderson
Okay. Interesting. Okay. And if they now are looking to just re-brand and bring in private pay, I assume Enlivant was doing that as well. So what makes you think that the new operators will be able to have greater level of success, tracking a private pay element to their facilities?

Clint Malin
I think part of that is, when you go through a transition on leases, first of all, ALC went through a management transfer with an interim CEO and then a private equity buyout and then a lease expiration. And as you go into all those dynamics, plus the lease expiration going forward, the focus on those assets, I think, is not as great as otherwise would be if they were vested long-term in those assets. So I think that companies who now are going to be in for long-term basis, have more of a focus on the buildings to increase occupancy.

Rich Anderson
Okay. How much is Medicaid generally outside of the Northwest?

Clint Malin
Outside the Northwest, it's been a pretty small percentage. Let me give you an example. Bear with me a second. For instance in the Indiana, Ohio regions, historically back, it was probably about 10%.

Rich Anderson
Okay.

Clint Malin
That's just an example of—

Wendy Simpson
And in Texas.

Clint Malin
In Texas—

Rich Anderson
Sounds like you're flipping through the Bible there.

Clint Malin
Texas was about 20%.

Rich Anderson
Okay.

Clint Malin
Much lower outside of—the Northwest was where there was, just an inordinate percent—inordinate amount of Medicaid.

Rich Anderson
Okay. And then last question, the GAAP spread relative to what you were—I think it was $8 million versus $6 million for those that you're keeping. Were those previous rents straight linable?

Wendy Simpson
Yes.

Pam Kessler
Yeah. The previous rents were straight lined.

Rich Anderson
They were. Okay. So you still are able—I guess the escalators are that much greater?

Pam Kessler
Well, so you're starting from the same cash rent for the properties that we're releasing. You're starting with the same cash rent that we received in 2014 and you're growing that by 2.5% to 2.6%. So then you take that over the lease terms and that's how your GAAP is higher, yeah.

Rich Anderson
Okay. Got you. Okay. Thank you very much.

Wendy Simpson
Thanks, Rich. Welcome back.

Operator
The next question comes from John Roberts of Hilliard Lyons. Please go ahead.

John Roberts
Morning, Wendy.

Wendy Simpson
Hi, John.

John Roberts
Most of my questions have been answered. So I think I'm going to go big picture here and since you brought it up, I'll let you discuss. In light of the AVIV deal, how do you look right now at—sort of your strategic direction going forward? Do you feel like you can still accretively buy properties, given the type of cap rate they were taken out at and add value and as an independent company at this point?

Wendy Simpson
I really do. I mean, we have plenty of liquidity to grow the company at very reasonable rates. So we can look at opportunities at a lower cap rate, lower cash yields. There is opportunity out there as Clint indicated by our pipeline. I think ALC has been a significant distraction in the second half of the year not so much in the first half of the year but in the second half as the negotiations were getting more specific and we had asset tours and a lot of things like that.

We now feel a heavy sigh of relief to have it all decided and almost all done. There will be some activity at the end of the year as the assets transfer. So I really do believe that we have opportunity to grow. We still have a lot of confidence in our construction projects. We're strategically doing these. We’re not constructing all over the country.

I think those assets that Clint talked about that we've brought on just recently in the last couple of years are showing based on their lease-up and their performance that we’re underwriting properly. We are selecting the right operators. I do believe that we have a significant opportunity to grow this company again.

John Roberts
I guess, of course, that’s the downside of being doing this for a while, is looking at current cap rates versus what I am used to from the 90s and getting scared.

Wendy Simpson
Right.

John Roberts
But anyway, you said the 9% yield on capital improvements, is sort of what you’re targeting. Would that be more the direction you’re going to go at this point versus acquisitions given the cap rate environment? Would you tend to look more at those capital improvements and maybe development type opportunities versus going out and buying properties?

Clint Malin
John, this is Clint. We are definitely actively engaged with our tenant base and deploying capital on whether its capital expansions, renovations, but to be able to grow the company from a sizeable standpoint at those rates, we would have to go out and do large—I mean a high volume of large projects. So although that will continue to be a focus of ours, I think it will a balance between that and looking at acquisitions to deploy capital.

John Roberts
Okay. And is that going to color at all how you do acquisitions? You’re going to look for acquisitions where you might have the opportunity to do some higher cap rate or higher return type investments on the development side? Would you be more liable to look at buying a property that might offer you that versus just buying a one-off that might offer you a very little on the back end?

Clint Malin
Absolutely. Absolutely, great example of that is the Michigan transaction, the loan we did last year. We're looking at couple of replacement projects within that portfolio right now. So we like being able to identify opportunities where it’s not competitive, where we can deploy capital and have value add opportunities with the right operator. I think that’s the great result not only for us, but also for our operating partner.

John Roberts
Great. Thanks a lot.

Wendy Simpson
Thanks, John.

John Roberts
Thank you.

Operator
Once again, if you have a question, please press * then 1 on a touchtone phone. The next question comes from Daniel Bernstein of Stifel. Please go ahead.

Daniel Bernstein
Hi. Good morning.

Wendy Simpson
Hi, Dan.

Daniel Bernstein
Hi. I just want to follow-up on Rich's questions on Enlivant and just wanted to understand Seniors Lifestyle and Veritas, are they already operating small properties in smaller markets or are these a newer type of market for both of those operators? Just trying to understand their ability to go ahead and manage those assets effectively.

Clint Malin
Dan, for Veritas, I mean they do operate a few properties similar size as this. So it fits in with their profile. And Senior Lifestyle has I think historically done larger communities, but as they have grown their company and expanded I think they have been willing to look at other opportunities and they do have the smaller properties in their portfolio. And this just continues to grow that expansion of it. So I think for them it has just being opportunistic and layering in opportunities within their existing footprint.

Daniel Bernstein
Okay. They already have regional presence in these areas and they don't have to invest in additional dollars and regional management, they already have experience in this geographies. That's the way to think about it?

Clint Malin
Correct.

Daniel Bernstein
Okay. And then on the broader picture, I'm try to understand what's driving cap rates in skilled nursing aside from the decreasing capital cost or are there new entrants looking for assets that you're coming up against? Just trying to think about the kind of—in light of the OHI-AVIV merger, what are the strategic changes that are going on in the skilled nursing space that you're seeing in terms of competition for assets and what's driving that space?

Clint Malin
Sure. Well, I think one thing that's driving the space is just increased capital that are looking at opportunities to deploy dollars. That's one item that's driving it. The other item is that some of the transactions that have been brought to market are just; it's a concentration of assets and higher quality better located assets. Those two items combined with lease from our pipeline, we're not seeing as many opportunities on the skilled side as we are on the private pay senior housing side. So when you don't have as many opportunities out there, that tends to dry pricing as well. Those would be the three items that I would identify in regard to what's driving pricing on skilled nursing. Plus also you have an environment, reimbursement environment that right now is—

Wendy Simpson
It's pretty steady.

Clint Malin
It’s pretty steady. So there’s no headline news out there right now. So that tends to bring maybe say non-dedicated investors in skilled nursing. Maybe bring them back because it is a higher-margin investment. And without headline risk out there, people may be willing to jump back in and look at that as an opportunity.

Daniel Bernstein
Outside of any of the headline risk that we see out there in reimbursement, are your operators or are you concerned about any other reimbursement items that might be flying under the radar, that people aren't worried about?

Clint Malin
Not that I am aware of, no. There's always that concern that it can change but right now we have nothing at a high level that our operators have brought to our attention that they are concerned about.

Daniel Bernstein
Okay and then, my last question, I guess, is another broad question. Maybe switching back to seniors housing—it seems to me like interest in development in the space has picked up a lot. At the same time, the NIC MAP data shows assisted living starts has maybe come down a little bit. What are you seeing out there in terms of interest to develop and maybe opportunities to expand beyond your current development platform in memory care? Are you concerned about the development picture out there or does that seem to be moderated a little bit to you?

Clint Malin
I think it’s moderated a little bit. I think there continues to be a lot of talk about people looking at opportunities but when you actually dive down into the local markets and engage experts to do market studies in the local markets, there is opportunity to proceed on that. And so that's where we’re—certain markets we may not want to expand into but others there are still a lot of opportunity out there. So I think it’s really being prudent and disciplined in your underwriting which hopefully the properties that we have done on a development basis demonstrates our due diligence in underwriting of these transactions by the occupancy levels that we've experienced on our lease-up properties. So I think it’s really market specific, Dan.

Daniel Bernstein
Okay. That’s all for me. Thanks a lot.

Pam Kessler
Thank you, Dan.

Operator
And we have a follow-up from Karin Ford of KeyBanc. Please go ahead.

Karin Ford
Hi, just one quick follow-up. Is the EBITDAR coverage positive day one on the two new leases or if not, when do you expect EBITDAR coverage to be positive on those properties?

Clint Malin
Going into it, Karin, it's probably going to be close to 1:1 on the coverage and then we've done modeling to what it can look like with occupancy increases overtime. And our hope is that the coverages can sort of fall out in the 1:3 to 1:4 range, somewhere in that neighborhood long-term.

Karin Ford
Okay that's in like the 18 to 24 months stabilization timing.

Clint Malin
24-ish.

Wendy Simpson
But Karin, you've got to realize these are coverage numbers that the operator gave us as they're negotiating their release.

Karin Ford
Right.

Wendy Simpson
So they are not going to be aggressive in terms of how much—everybody needs more expenses than anybody else had and revenues are going to come down and that sort of thing. So while we were very aggressive in negotiating, these are the numbers that our operators gave us and hopefully they will be much more profitable than those numbers show. We believe we got a really good deal for LTC and as we've always said we would like our operators to outperform. So based on the numbers they gave us while negotiating their lease, it looks like a one coverage.

Karin Ford
Thank you for the color.

Clint Malin
And as they increase their performance that's why we have the participation rents in the leases.

Wendy Simpson
Right.

Karin Ford
Great. Thank you.

Wendy Simpson
Thank you, Karen.

Operator
And we have a follow-up from Daniel Bernstein of Stifel.

Daniel Bernstein
Hi. Just had another quick question on Enlivant. Do the properties that you're releasing need any cap ex? Are you providing any of that?

Clint Malin
We are providing some cap ex to the properties. In total, we are looking at about $3.5 million in total.

Wendy Simpson
And that's revenue-producing.

Clint Malin
That's revenue-producing that we have made a commitment on and there's about—we will have about 800 that would be included in the base rent starting off.

Daniel Bernstein
Okay. Great. Thank you.

Pam Kessler
Thanks, Dan.

CONCLUSION

Operator
This concludes our question and answer session. I would like to turn the conference back over to Wendy Simpson for any closing remarks.

Wendy Simpson
Thank you, Andrew, and thank you all for joining us today I know several of you are leaving to get to NAREIT. Pam and I will be there and would welcome an opportunity to talk to you further and we look forward to our year-end call. Thanks a lot. Have a great day.

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