LTC Properties

3Q15 Analyst and Investor Call

November 3, 2015 at 8:00 AM Pacific

CORPORATE PARTICIPANTS

Wendy Simpson – *Chairman, Chief Executive Officer, and President*

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

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

PRESENTATION

Operator
Good day, and welcome to the LTC Properties Inc. 3Q15 Analyst and Investor Call and Webcast. All participants will be in 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 LTC Properties' filings with the Securities and Exchange Commission from time to time, including the Company's most recent 10-K for the year ended 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, Kate. Good morning everyone and thank you for joining us today. I'm very pleased to be able to report another active quarter for 2015 and the beginnings of an active fourth quarter.

Year-to-date, we have underwritten $90.5 million in new construction and expansion projects, $75.7 million of that amount is projected to begin generating lease revenue in 2016, and $14.8 million in 2017. Year-to-date we have completed sale leaseback transactions totaling $179.4 million with lease rates between 6.5% and 10.3%. Year-to-date we have underwritten loan originations of $91 million, of which $59 million has been funded. Year-to-date we have invested $20.1 million in a joint venture at a 15% preferred return, currently paying 5% cash with 10% deferred. Year-to-date we have invested $6.1 million in improvement and expansion projects at portfolio properties at lease rate between 6.8% and 9%.

The 1st of October we increased our monthly dividend from $0.17 to $0.18 per month. Yesterday, we announced the expansion of our unsecured line of credit to $600 million and welcomed two new banks, Citizen's Bank and Mizuho into the line. Pam did a great job on this and she'll have additional comments about the expanded line and our comfortable liquidity and investment grade-worthy financial ratios. Pam will also talk about locking rate on $100 million of senior unsecured notes and how those proceeds will be put to productive use.

Subsequent to the quarter and disclosed in our press release, we have closed on additional transactions and I will not at this point steal Clint's opportunity to talk about them during his presentation. After comments from Pam Kessler, our Executive Vice President and CFO, and Clint Malin, our Executive Vice President and CIO, I look forward to giving guidance for full 2015.

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

Pam Kessler
Thank you, Wendy. Normalized FFO increased 18.2% for the third quarter of 2015 to $26.6 million, or $0.73 on a fully diluted per share basis from $22.5 million, or $0.64 on a fully diluted share a year ago. Normalized results for the quarter exclude $537,000 of one-time costs associated with the acquisition of a $142 million 10-property senior housing portfolio that we discussed last quarter. Revenues for the quarter increased 18.3% or $5.4 million year-over-year. The improvement primarily reflects acquisitions, completed development and capital improvement projects, new leases and lease amendments, as well as increase in interest income from mortgage loans resulting from loan originations and the amendment to the Michigan loan, partially offset by a reduction in revenue from properties that were sold at the end of 2014.

Third quarter interest expense was $4.3 million, an increase of $1.1 million over the comparable 2014 quarter due primarily to greater utilization of our line of credit to fund investments and development, lower capitalized interest, and the sale of senior unsecured notes. During the third quarter of 2015, we incurred acquisition costs of $539,000 compared to $2,000 incurred during the third quarter of 2014. As previously discussed, $537,000 of the acquisition costs incurred in the third quarter of 2015 are associated with the $142 million portfolio acquisition and have been added back to calculate normalized FFO. General and administrative expenses were $3.7 million, or $867,000 higher this quarter compared with the year ago, due to increased staffing and other costs associated with more investment activity, higher restricted stock vesting expense, and certain non-recurring expenditures.

During the quarter, we recognized $674,000 in income from an unconsolidated joint venture related to a preferred equity investment made at the end of the first quarter of this year. During the quarter, we stopped accruing the non-cash portion of our preferred return. Accordingly, we anticipate next quarter we will recognize approximately $260,000 in income from this unconsolidated joint venture, which represents the 5% cash portion of our 15% preferred return. We will recognize the 10% pick interest as it is received.

Turning to the balance sheet, as previously discussed on last quarter's earnings call, we purchased a $142 million portfolio of independent, assisted-living, and memory care communities in Wisconsin and Illinois and entered into a 15 year triple-net master lease with Senior Lifestyle at an initial cash yield of 6.5%, escalating by 25 basis points per year for two years and 2.75% annually thereafter. Additionally, we purchased a development site for $2 million and entered into a commitment to construct a 66-unit memory care community in Murrieta, California. The commitment totals $12.6 million, including the land, and the property was added to an existing master lease at an incremental cash yield of 9%. We also acquired a newly constructed 60-unit memory care community in Jacksonville, Florida for $14.3 million, and entered into a lease at an 8% initial cash yield. Also during the quarter, we invested $6.9 million in properties under development and capital improvement projects. Subsequent to September 30th, we purchased a development site for $2.8 million and entered into a commitment to construct a 66-unit memory care community in Glenview, Illinois. The commitment totals $14.8 million, including the land, and the property was added to an existing master lease at an incremental cash yield of 9%. We also purchased a 118-bed behavioral healthcare hospital in Las Vegas, Nevada for $9.3 million. The property was added to an existing master lease at an incremental cash yield of 8.5%. Additionally, we originated a $20 million 30-year mortgage loan secured by two skilled nursing properties in Michigan. The loan bears interest at 9.41% for five years, escalating 2.25% annually thereafter.

During the quarter, we had net borrowings of $85 million under our line of credit. Subsequent to September 30th we exercised the $200 million accordion feature of our line of credit, bringing total commitments under our line to $600 million. Also subsequent to September 30th, we borrowed $22 million and therefore currently we have borrowings of $187.5 million outstanding and $412.5 million available under our revolver.

During the third quarter, we sold $100 million of senior unsecured notes to Prudential to fund the $142 million portfolio acquisition I previously discussed. The notes bear interest at 4.5% and mature on August 31, 2030.

Also during the quarter, we entered into a note purchase and private shelf agreement with AIG, providing for the availability of $100 million senior unsecured notes. Subsequent to September 30th, we locked rate on the sale of $100 million of senior unsecured notes to AIG. Proceeds will be used to pay down our line of credit. The notes will bear interest at 4.26% and will mature on November 20, 2028. We anticipate the sale of the notes will occur on or about November 20, 2015.

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 Pam just outlined, following our $142 million portfolio investment in the third quarter with Senior Lifestyle, we continued an active quarter of investments.

The two land acquisitions Pam mentioned were sourced through our exclusive development pipeline agreement with Anthem Memory Care, which brings to eight the number of properties on our master lease with Anthem. Four of these properties are operational and the other four are in various stages of construction.

We acquired a memory care property that Pam mentioned that was recently constructed in Jacksonville, Florida and leased it to an affiliate of Clarity Pointe, which brings a new relationship to our portfolio. We entered into an exclusive development and takeout financing agreement with Clarity Pointe as part of this initial acquisition. The takeout financing under this agreement is at a pre-determined price and payable upon issuance of a certificate of occupancy and a healthcare license for projects preapproved by us. The Clarity Pointe relationship provides a good balance on our development and financing program by reducing construction risk exposure to LTC, while continuing to add new assets to our portfolio.

Our close relationship with Prestige Healthcare sourced the two skilled nursing investments in Michigan.

During a meeting with Fundamental earlier this year, we discussed a mutual interest in the growing need for behavioral healthcare services to the elderly and others. Our mutual interests and close relationship with Fundamental sourced our first behavioral healthcare hospital investment, which is located in Las Vegas, Nevada. Behavioral healthcare is a segment of a needs-driven healthcare delivery system that continues to gain our interest. This investment with Fundamental provides us with an opportunity to make an initial investment in this space with an existing partner in a market where Fundamental has a strong presence across multiple healthcare settings and has longstanding relationships with third-party payors and hospital systems at a reasonably priced entry point, well protected by the credit enhancement of a master lease. We see many attractive attributes of the behavioral healthcare space. It is a highly fragmented market with a growing demand and now has more established payor sources driven by the Affordable Care Act, which mandates integrated mental healthcare into all components of the healthcare delivery system. We see this asset type as having the potential of adding additional diversification within LTC's portfolio, focused on needs-driven services. We'll provide update as we make further progress in evaluating investment opportunities in this property, in properties that deliver behavioral healthcare services.

On our last earnings call, I indicated that our active pipeline was at $150 million. Since then, we have completed $74 million in investments and development commitments. Prior to year-end, we anticipate closing on a $23 million acquisition for two skilled nursing properties, which will be added to an existing master lease. Including this $23 million investment, our active pipeline is at $125 million.

Turning to the portfolio, all of our new development projects that have opened are at or ahead of pro forma projections with the exception of one skilled nursing center in Wisconsin that opened in February 2014 and which is included in a master lease with strong coverage. Between July and September of this year occupancy has fluctuated between 60% to 70%. The market has a high managed care penetration and our operating partner, Fundamental, recently secured a contract with United Healthcare that takes effect on November 1st. Fundamental believes this new contract will allow the property to achieve a stabilized occupancy at or above 85% prior to the 24-month mark following its opening. In the Denver metro area, Anthem has continued to see a strong moving pipeline at the four new memory care communities they lease from us, with the initial project continuing to maintain 100% occupancy. Anthem has not given any rent concessions and has been able to assess their full community fee to new residents at move in. Based on discussions with Anthem, they anticipate implementing rent increases in 2016 at the community that is maintaining 100% occupancy.

For the same-store portfolio, lease coverage for the trailing 12 month period ended the second quarter of 2015 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. EBITDARM coverage for skilled nursing is 2.35 times, assisted living 1.65 times, and range of care 1.74 times. EBITDAR coverage, after an allocated management fee of 5% of revenues, is 1.72 times for skilled nursing, 1.41 times for assisted living, and 1.27 times for range of care. Compared with the previous quarter, occupancy has remained consistent across all property types. Occupancy for the trailing 12-month period ended in the second quarter is as follows: Assisted living 86.1%, skilled nursing 79.5%, and range of care 86.5%. Coverage and occupancy metrics for our portfolio of 37 assisted living communities leased to Brookdale continues to be strong. For the trailing 12-month period ended the second quarter, EBITDAR coverage after an allocated management fee of 5% of revenues is 1.83 times with an occupancy of 89.3%. Our quality mix for the portfolio remains strong with 51.7% of our underlying revenue derived from private-pay sources. Now I'll turn the call to Wendy.

Wendy Simpson
Thank you, Clint. I'm going to ask Pam to comment on our liquidity and what we have in our plans to fund this additional growth. I just want to say that during Pam's comments when she talked about the senior unsecured notes she gives the maturity date of a specific date. We amortize and we pay down lease notes as they go along. So it's not a wall funding date, but Pam always says the final maturity date, and that's how she looks at it but that's not how we negotiate these payments. So I just wanted to point that out. Pam, do you want to talk about other liquidity?

Pam Kessler
Sure, and thank you. LTC is in an enviable position of having low leverage and ample liquidity to fund our current growth trajectory. We currently have $412.5 million of availability under our unsecured line of credit. Additionally, we have $33 million of unsecured debt availability under our Prudential shelf. We also have $200 million available under our ATM program and $575 million available under our shelf registration statement. At the end of the quarter, LTC's investment-grade metrics remain one of the best in the healthcare universe with debt-to-trailing 12-month normalized EBITDA of 4.4 times, a normalized trailing 12-month fixed charge coverage ratio of 5.9 times, and debt-to-enterprise value of 25.1%.

I'll now turn the call back over to Wendy for closing remarks.

Wendy Simpson
Thank you, Pam. Last quarter, I said that we had a high probability to invest and underwrite over $400 million of 2015 transactions and I believe we will achieve that. We have often stated that the sale leaseback opportunities are bumpy in nature, and this year we've seen opportunities and have executed on accretive transactions, while still underwriting development opportunities that will additionally fuel our FFO, FAD growth in future years.

As Pam outlined, we have secured the liquidity needed to complete our 2015 growth as we now project. Additionally, with our ATM and our expanded bank line, we have access to liquidity for additional growth in 2016, if and when opportunities arise. I continue to believe that the 30/70 debt-to-enterprise value capitalization is not a bright line limit, but is a point of reference. We will have to carefully evaluate our pipeline for 2016 as we approach the New Year. Back of the envelope, if we use debt to fund all of our currently outstanding commitments in 2016 and spend absolutely no other growth capital, we would have a 29/71 debt-to-enterprise ratio at the end of 2016 without assuming an increase in our stock price. As a team, we could not be more pleased with our 2015 year and with the plans we already have in place for 2016.

At this time, I'm increasing FFO guidance by $0.02 to a range of $2.76 to $2.78. This represents an increase of $0.19 from our first fiscal 2015 guidance and does include the full impact of the $100 million draw of the senior unsecured notes that we will place later this month. I know we will have a chance to meet with some of you at the upcoming NAREIT Conference in Las Vegas, but if we do not meet you before year-end, I again look forward to talking to you early in 2016.

Thank you for dialing in. And I'll now open the call to questions.

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 your touchtone phone. If you are using a speakerphone, please pick up your handset before pressing the keys. If at any time your question 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 our roster.

The first question comes from Jordan Sadler of KeyBanc Capital Markets. Please go ahead.

Jordan Sadler
Thanks. I guess I would like to finish off, sorry, start off where you guys finished off, which was on guidance. If you could just sort of walk us through what maybe some of the puts and takes might be sequentially, Pam or Wendy. The, I guess the $0.71 that’s in, at the midpoint of guidance versus sort of the $0.73 normalized that you did this quarter. I mean I understand you have this loan closing, but obviously you closed quite a few of investments during the quarter, or around mid-quarter, so I feel like you have this upward momentum. Anything else we’re missing?

Pam Kessler
Jordan, this is Pam. Guidance includes every investment that we have announced as of today, so it includes all of the, that 10-property portfolio in Wisconsin, it includes the development projects that are projected to come on line, and all the loans that we have originated and funded.

Jordan Sadler
Right, and the...

Pam Kessler
No additional investments are assumed.

Jordan Sadler
The only real drag sequentially is the additional $100 million of notes that you'll be taking down?

Pam Kessler
Exactly. Yes, yes.

Jordan Sadler
Right.

Pam Kessler
And some of the investments, if you look at the slides on Page 6, or I’m sorry, 7 of the supplemental. That gives an indication of when we expect to fund some of the developments. So if your model is coming up not in the range that we project, it may be that you're being aggressive on fundings.

Jordan Sadler
Right. Okay. And it does not include, to be clear, the $23 million that Clint mentioned of SNFs that are expected to close by year-end, right?

Pam Kessler
Correct.

Jordan Sadler
Okay. And then just last, coming back to leverage, the 30/70, 29/71 numbers are helpful. Do you have those estimates on a debt-to-EBITDA basis? I thought I heard year-end ’16, but I might have misheard that, Wendy, when you were talking about the 29/71, if that was ’15 or ’16? But if you had that on a debt-to-EBITDA basis that would be helpful.

Pam Kessler
It's ’16; the 29/71 would be the end of ’16.

Wendy Simpson
And that debt-to-normalized EBITDA would be around five times or slightly under.

Jordan Sadler
Okay. And is there a limit on the debt-to-EBITDA basis that you guys are targeting at this, either lightly or firmly at this point?

Wendy Simpson
The targeting is around five times. It's kind of when you are at the 70/30 you're around five times, at least in our projections that's how it shakes out.

Jordan Sadler
Okay. And then lastly, I was just looking at one of your SNFs, Slinger, sequentially saw occupancy slip from 70 to 61. Any sort of color there that you might offer?

Clint Malin
Sure Jordan, this is Clint. That's actually the property that I referenced in my prepared remarks, where Fundamental has secured a contract with United Healthcare that they think is really going to drive the occupancy at that community.

Jordan Sadler
Okay. Thank you.

Pam Kessler
Thank you, Jordan.

Operator
The next question comes from Paul Morgan of Canaccord. Please go ahead.

Paul Morgan
Hi, good morning. Maybe you could talk a little bit about your pipeline in terms of the mix. Maybe, first of all I guess kind of the share of it that's with your existing operators versus maybe, you know, the potential that you could be seeing investment opportunities with other operators that might be a result of, you know, deals from other REITs or other investors who are more capital constrained than you are? And then I guess second, just in terms of kind of the mix between private pay and SNFs and other?

Clint Malin
Sure Paul, I can answer that. This is Clint. Right now in our pipeline, everything right now is sourced through existing relationships that we have in the portfolio, and to break that down right now on property type, 45% of that would be memory care, 26% would be AL memory care, and 29% would be skilled nursing. And then breaking it down, 65% would be acquisitions, 25% would be loans, no I'm sorry 25% would be development, and 10% would be loans.

Paul Morgan
So, does that mean that, I mean, how should we think about the behavioral facility, I mean, it sounds like there is none of that in your pipeline, but I know you're interested in the segment. I mean, how, should we think of there being a sense for more activity like that next year? Just nothing that has kind of gotten to, you know, qualified as officially being in your pipeline yet?

Clint Malin
You know, it's something that we have, at least as I mentioned in my prepared remarks, something that has gained interest for us. We've looked at its fragmented market, it's needs-driven. It just happened that we were at a meeting with Fundamental and talking about our interest, as I mentioned, and they had a unique opportunity in the Las Vegas market that they have a large presence in that market. It fit into an existing master lease, so that was very much an opportunistic investment that we ran across. I think it's something we're continuing to explore and find out more about, but it's something that definitely has interest to us in pursuing that space.

Wendy Simpson
Fundamental first started talking to us about this probably two or three year ago, where they got into the geri-psych care. They've opened a geri-psych hospital in New Mexico, which they I think either renovated or built from scratch. So, they had already advanced their interest in the geri-psych program and had the opportunity, kind of hired some executives with background in psychiatric services in Nevada, and will be using those people to help build out a platform for themselves.

We're looking at this opportunity the same way we looked at the memory care opportunity. We're looking for operators who are just beginning to develop a platform. We've had the great opportunity to meet with a couple of new companies, newer companies that are forming. There's lot of venture capital behind these companies. Clint and Brent and I went out and looked at a standalone property in the city, outside of Chicago. So we're approaching this the same way we approached the memory care as looking for operators who already have a platform, have a knowledge of the business, and are building a business. And there are some new assets out there that we think will enhance our portfolio if we decide to go into this.

One of the great things about the opportunity that Fundamental has given us is this standalone hospital will have its own standalone financials. We'll have an opportunity to look at the various programs that can be provided within the facility, the margins that can be provided within the facility, and use that as a guideline as we look at more opportunities in this asset class.

Paul Morgan
Great. Thanks. And then just my other question is there's obviously a lot of angst about the supply side in the context of assisted living in particular. Your coverage was stable, but maybe you can provide a little color about what your operators are seeing, and what you're seeing within your portfolio, and then in terms of development funding both for assisted and memory care, is it changing your appetite for kind of the development component of your investment as you look into next year?

Clint Malin
Sure, this is Clint. As it relates to, you know, we're very cognizant, obviously of supply and what's happening and we look at it market-by-market and we stay in touch closely with our operating partners, and where they're at, and that's one of the reasons in my prepared remarks, I mentioned about our Denver properties. We have not seen any challenges with Anthem in those properties. We have an AL memory care property in Wichita with Oxford that's maintained still at 100% occupancy. So with the properties we have with the exception of the one in Slinger which I discussed, we really have, everything is at or ahead of projections on the development side.

We've spent a lot of time at sourcing, identifying relationships with operating companies to source these development projects, and at this point probably we've identified those relationships, and we're going to be to the extent we grow in development it's going to be within those relationships, most likely, and on a, it's going to be a very disciplined approach that we've done so far and we're not getting ahead of ourselves, because we do recognize in certain markets there could be the potential for oversupply. I think it gets talked about on a nationwide basis, but there are certain markets where there are still opportunities and there is other markets where there is over building.

Paul Morgan
Great. Thanks a lot.

Operator
The next question is from Michael Carroll of RBC Capital Markets. Please go ahead.

Michael Carroll
Thanks. Wendy, can you talk a little bit about LTC's investment activity and why it has accelerated this year? Is Management doing something different and do you think this type of activity can continue into 2016?

Wendy Simpson
Well, Clint's finally realized that his job depends on doing acquisitions now. We just had opportunities, as I said. It's what opportunities have been presented to us, what we've been able to go out and source our, we really make it clear so our operators that we want to help them grow, and as you look at most of our activity this year, they've been with operators who have experience with us in the past.

Do I think we can do it in 2016? As I sit here right now, I don't see the pipeline in 2016. And we really run this business to be able to not have to do anything. So if the opportunities aren't there in 2016 for additional growth, as I said in my beginning remarks, we already have growth booked on our balance sheet that will start providing revenue in 2017 just from our development activities, and the things that we're doing later in this year. So I don't predict that we're going to do another $400 million or anywhere near that for 2016 until we see our pipeline improve or increase during the year. And because I don't see it right now, I don't see a huge need to go out and get additional liquidity, but if the need arises I think we have the liquidity and the opportunity to get the capital that we need.

Michael Carroll
Okay. And then how do you think about the tenant concentration with Senior Lifestyles and Prestige. Are you hesitant to expand with those tenants going forward?

Wendy Simpson
Well, in the Prestige area specifically, you know, I think they're fantastic operators and they have such a great growth trajectory. Our problem, not our problem, but what we look at is the fact that they have to be booked as loans. And we're very concerned, not concerned, but aware of loans to equity investments to be an equity REIT. So a huge investment in Michigan with Prestige, an additional huge investment would probably not be something that we could easily do. And relative to Senior Lifestyles, they're going to be diluted as we get more activity and book some more of our development projects. So I'm not concerned with Senior Lifestyles right now.

Michael Carroll
Great. Thank you.

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

Rich Anderson
Thanks, good morning. Do you remember an estimate on how initially dilutive your development business is? I realize long-term it's not, but there is some drag at the start, is that not correct?

Wendy Simpson
Yes, that's correct Rich. I have not quantified it, but yeah, I mean intuitively for 18 months you're putting out cash and you're not getting a return on it until [unintelligible] so from a top-line earnings yeah, yeah.

Rich Anderson
Okay. All right. And in terms of like a broad kind of industry perspective, you know, we've been doing a lot of work on this bundling, these pilot programs CMS is undertaking, a lot of it aimed at obviously reducing costs, but in some ways reducing admissions to skilled nursing facilities and other post-acute facilities. I'm wondering to what degree that concerns you about your business, and if any of your operators are in the early stages of adjusting to maybe what could be a new paradigm in their space?

Clint Malin
Sure, and Rich, this is Clint. It's something we're always cognizant of, and I think that what the ultimate payor system is, I mean that's uncertain. I think it is obviously going to be driven towards efficiencies and value-add into the system. And so what we're doing in partnering with our skilled nursing providers is working with those regionally-based providers that understand their markets that are investing in human capital and technology to become more efficient, because they know that it's going to be, it's going to further, over time, drive to results-oriented performance. So I think the system is going to change over time, but the question is what will it change to? Who becomes the bundler? How does that get allocated? But we do think that the regional-based providers are the ones that can become connected in their marketplaces and participate with those health systems to be that low-cost provider.

Rich Anderson
Okay. And Wendy, it sounds like, well not your biases towards development versus acquisition, but you don't know what your pipeline will look like next year. But just if you were to, if you had a full range of menu available to you, do you have any specific bias as it relates to acquisitions versus development versus debt, other debt financings, although it sounds like the latter you probably don't want to go down the road too much more. Any comment on that?

Wendy Simpson
Yeah, I think I'd prefer like 60% sale leasebacks to 40% development. I'd like to see more development opportunities in the skilled nursing area, because I think that's a group of assets that really needs some new stuff being built. And I think we're talking to a couple of people about doing some replacement projects or de novo projects but not far enough along the line. So, I really would like to see, because we've done so much development in the last couple of years and I ought to be able to say we'll stop development if we see over-development and

prices going so high. And so, it would be great if we had much more opportunity in the sale leaseback area.

Rich Anderson
Okay. And then last question, you mentioned you do all your development funding with debt next year, you get to 29% leverage. Is there, and I understand also it's not a line in the sand, but just kind of a point of reference, but is there a trigger point as you are approaching 30, like, do you start to say well we're at 24-25, lets, because you don't want to make a rash decision, at the 11th hour you're probably gradually approaching, so is 25 kind of and just so you can get overly simplistic here, but is 25 the number where you start to say okay, let's start to strategize because we might have more stuff coming and we should start thinking about some type of equity raise because it's getting closer. Is that kind of how you think about it or is it just too simple, not as simple as that?

Wendy Simpson
Well, that's how we start thinking about it, and then we look at, you know, where our stock price is and whether the next opportunity to buy is equity-worthy as opposed to debt-worthy, and, you know, look at recent deals that have been done and how much of a discount they've taken and how oversubscribed they are, the whole thing. You know, we've danced around doing additional opportunistic equity in the last several weeks, not last several weeks, last several months because we are at a point where I think if we had a big pipeline, we might look at doing equity. So, it is. It's at this point that we'd looked at it, but there'd have to be so much accretive investments in front of us for us to do it right now, or anytime…

Rich Anderson
Understood.

Wendy Simpson
And we've got this nice little ATM thing out there.

Rich Anderson
Oh, okay. And what about asset sales?

Wendy Simpson
We are looking at, there are a few assets in our portfolio that we're looking at and discussing with, our first option is to go to the operator, and say, hey, how would you like an opportunity to really be the owner of this property? So there are a few ops, and I don't know Clint wants to talk about any specifically, there is a…

Clint Malin
There is a handful that we're working on, you know, things that we're having discussions with existing tenants and so I think that you will probably see in '16, starting to recycle capital on a few one-off assets here and there.

Wendy Simpson
Yeah, we've got a couple of assets that either have just one operator or an operator that has a couple of assets and while they're covering well and provide good cash flow, it's that type of asset that the operator might be able to get HUD financing for and so we are looking at a few assets to turn into cash.

Rich Anderson
Got it. Thanks very much.

Wendy Simpson
Thank you, Rich.

Operator
Again, if you have a question, please press star (*) then one (1). The next question is from Daniel Bernstein of Stifel. Please go ahead.

Daniel Bernstein
Hi, good morning.

Wendy Simpson
Hi Dan.

Daniel Bernstein
Hi. So I also wanted to ask on construction, you know, we've heard construction costs rising. Have you seen any impact on your IRRs or thoughts about construction, given increasing construction costs? Is there going to be a limit on how much construction you or your partners want to do, or is that overwhelmed by other factors at this point?

Clint Malin
Hi Dan, this is Clint. Good question. We are definitely seeing that whether it's land, labor, materials, we are seeing a rise in prices. It depends on what markets, but it's still, you know, in a number of the projects we're looking at, they still make sense, but it is something we're definitely seeing. And the question is, how much in certain markets is it increasing, but that's pretty consistent. To a certain extent there is definitely an uptick in the construction costs.

Daniel Bernstein
Okay. And then in terms of the pipeline and what assets you're seeing out there, we've heard a little bit more about re-trading of assets, big deals that might have fallen through. Are you seeing some more opportunities that have been in the pipeline, and again very preliminary obviously for '16, but any more opportunities that might have slipped through the fingers of other buyers in the last couple of months or quarters that may be now coming back to you?

Clint Malin
We have definitely seen and heard of deals that have fallen out, things that we've looked at and, or things that then subsequently fallen out or things that we've seen, you know, maybe a year ago or so that have come back around. I think at this point, it is, you know, sellers aren't at a point where they're willing just to reduce the pricing yet, but, and we've obviously been in a great position this year where we've not had, we are not in a position where we've had to force ourselves to do any deals, and we've obviously always been very prudent in how we underwrite, but I think in '16, it's likely to see some deals that will come back on the market and our hope is that those will be better priced, so that is…

Daniel Bernstein
Has there been any indication of any re-pricing or cap rates moving back higher, whether it's seniors or SNFs or elsewhere? Is it…?

Clint Malin
Not yet.

Daniel Bernstein
It seems to me that they've been pretty flat, but if there's some more re-trades I would think it would start to see cap rates backing up?

Clint Malin
We're hopeful in '16 that maybe that will surface, but not yet.

Daniel Bernstein
Okay. And then on the behavioral property, I don't know if we can, behavioral is a pretty wide ranging set of modalities. So is this substance abuse, is it psychological, behavioral? In that sense, just trying to understand a little bit more what you bought with Fundamental?

Clint Malin
It's pretty much - be general psych at this property.

Daniel Bernstein
Okay, okay.

Clint Malin
Yes, but Dan we're talking to other people that we, other groups we've talked about, I mean, it does range from geri-psych to chemical dependency, to adolescent programs, to...

Wendy Simpson
To veterans.

Clint Malin
Yeah, PTSD, veterans program, so there is a large swath and we've seen some operators that we've talked to where they don't want to rely upon on just general psych. They want to look at diversifying their hospital and providing services to different patient profiles. So different operating companies have different perspectives on which type of resident they want to focus their operations on.

Daniel Bernstein
Okay. Okay. And then in terms of the credit line, it is $187 million on the line now, you're going to term out $100, are you comfortable keeping that $87 still out on the line are you going to look to term that out pretty quick as well, say when we get into 2016?

Pam Kessler
Hi Dan, it's Pam. I think we're comfortable keeping that amount on the line. And we just extended the line to a capacity of $600 million, so I could see us going up to half of that.

Daniel Bernstein
Okay. And so, okay so you can go up half of that before you go ahead and term out, okay. Um, that's really all I have. Thanks for taking my call.

Wendy Simpson
Thank you, Dan.

Operator
There are no other questions at this time. This concludes our question-and-answer session. I would like to turn the conference back over to Wendy Simpson for closing remarks.

CONCLUSION

Wendy Simpson
Thank you, Kate, and thank you all for joining us today. And again, if you're at NAREIT and we have a chance to meet we would like to talk to you individually, and if we don't we'll talk to you in February I guess. Thank you. Bye-bye.

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