LTC Properties, Inc.

Fourth Quarter 2015 Analyst and Investor Call

February 22, 2016 at 10:00 a.m. Pacific

CORPORATE PARTICIPANTS

Wendy Simpson - *CEO and President*

Pam Kessler - *EVP and CFO*

Clint Malin - *EVP and CIO*

PRESENTATION

Operator

Good day, and welcome to the LTC Properties, Inc. Fourth Quarter 2015 Analyst Conference Call. 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. After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star then one on a touchtone phone. To withdraw your question, please press star then two.

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 dated December 31, 2015. LTC undertakes no obligation to revise or update these forward-looking statements to reflect events or circumstances after the date of this presentation. Please note this event is being recorded.

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

Wendy Simpson

Thank you, Austin. Good morning and good afternoon, everyone, and thank you for joining us today. The year 2015 was a significant year of growth for LTC. During the year, we underwrote a total of $414 million in transactions. Of that amount, $302 million represents accretive transactions at the time of closing the transaction, and $112 million was in new development investments and underwritten commitments that will be accretive upon completion.

At yearend, we had remaining investment commitments of $89 million, most of which will be spent in 2016 and will become revenue producing during 2016 or the first quarter of 2017. Our investment profile at yearend is 51.2% in skilled nursing assets and 41.3% in assisted living and memory care. All of the $41.6 million expended and classified as under development at yearend is related to assisted living and memory care. As a result, we remain fairly balanced in our portfolio of skilled nursing assets and assets more closely identified with private pay sector.

We expanded our line of credit to $600 million, expanded our relationship with AIG with a $100 million senior unsecured debt shelf financing agreement and established a $2 million ATM. Pam will discuss these activities more fully, but it is these actions plus successes in investments that made 2015 a growth year for LTC. And this growth allowed us to increase our monthly dividend from $0.17 a month to $0.18 per month beginning in October of 2015.

During the fourth quarter, National Health Investors, NHI, converted the LTC preferred shares they owned and received 2 million shares of LTC common stock. By holding the preferred, they were foregoing approximately 1 million in annual dividends, and I am pleased that NHI made this decision. I believe Eric Mendelson, NHI's CEO, commented on their recent call that they sold some of the shares and maintain over a million as of the date of his call. This issuance of shares was not dilutive to us because they have been in our fully diluted numbers for quite a while. But the conversion eliminates all preferred shares from our equity structure, and since preferred shares are viewed as debt it decreases our debt and benefits our already conservative leveraging stats; plus it adds 2 million shares to market capitalization and 2 million shares into circulation.

Subsequent to year end, we closed our first 2016 investment and purchased a new skilled nursing property in Texas for $16 million. During 2015 and already in 2016, we have done due diligence on larger transactions that were in the $90 million to over $200 million range, but they've not been able to meet all of our underwriting criteria or the assets might not fit our strategy of acquiring newer assets. While we are not stubbornly blind to a set of criteria, we just have not been able to get enough comfort that the acquisitions will be the right transactions at the right environment.

I am pleased to welcome Doug Korey, Senior Vice President of Business Development and Mandi Hogan, Director of Marketing to our company. They both joined us recently, and Clint will give you a summary of their backgrounds and how they will work with us in growing LTC in 2016 and beyond.

After comments from Pam Kessler, our EVP and CFO, and Clint Malin, our EVP and CIO, I will have closing comments and give guidance for the full year 2016.

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

Pam Kessler
Thank you, Wendy. FFO increased 21.9% for the fourth quarter of 2015 to $27.8 million, or $0.74 on a fully diluted per share basis from $22.8 million, or $0.64 per fully diluted share a year ago.

Revenues for the quarter increased 21.6%, or $6.6 million year-over-year. The improvement primarily reflects acquisitions, completed development and capital improvement projects, new leases and lease amendments, as well as an 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 sold at the end of 2014 and mortgage loan payoffs.

Fourth quarter interest expense was $5.6 million, an increase of $1.9 million over the comparable 2014 quarter, due primarily to the sale of senior unsecured notes, greater utilization of our line of credit to fund investments and development, and lower capitalized interest.

During the fourth quarter of 2015, we recorded a $2.3 million impairment charge related to a 48-unit assisted living community that we agreed to sell subsequent to yearend. We anticipate selling the property in the first quarter of 2016 for $1.8 million.

General and administrative expenses were $4 million, or $741,000 higher this quarter compared to a year ago, due to increased staffing and other costs associated with more investment activity. During the quarter, we recognized 276,000 in income from unconsolidated joint ventures and a $586,000 gain on sale of a 112-bed skilled nursing center located in Texas.

Turning to the balance sheet, during the quarter we purchased two skilled nursing centers with a total of 254 beds in Texas for $23 million, adding them to a master lease with Senior Care at an initial incremental cash yield of 8.25%. We also 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 full commitment totals $14.8 million including the land, and the property was added to an existing master lease with affiliate of Anthem at an incremental cash yield of 9% after certificate of occupancy.

During the fourth quarter, we purchased a 118-bed behavioral healthcare hospital in Las Vegas, Nevada for $9.3 million and subsequent to yearend, we purchased a 126-bed skilled nursing center in

Texas for $16 million. We added both of these investments to a master lease with an affiliate to Fundamental at an incremental cash yield of 8.5%.

During the quarter 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. To date, we have funded $15 million under this loan commitment. The remaining $5 million commitment is available over the next three years for capital improvements.

We also originated a $2.9 million mezzanine loan which is recorded as a joint venture to develop a senior housing community consisting of 99 independent assisted and memory care units. Additionally, we invested $12.8 million in properties under development and capital improvement projects during the fourth quarter.

During the quarter, we repaid $45 million under our line of credit with proceeds from the sale of 100 million of senior unsecured notes to AIG. The notes bear interest at a 4.26%, have scheduled principal payments, a ten-year average life and mature in 2028. As Wendy mentioned, we expanded our relationship with AIG earlier this year with a $100 million debt shelf agreement under which these notes were sold.

During the quarter, we exercised a $200 million accordion feature of our line of credit bringing total commitments under our line to $600 million. Also subsequent to December 31st, we borrowed $32 million and therefore currently have borrowings of $152.5 million outstanding and $447.5 million available under our revolver.

Also during the fourth quarter, as Wendy mentioned, NHI converted all their shares of our convertible Series E preferred stock into 2 million shares of our common stock. Therefore, we no longer have any preferred stock outstanding.

I will now turn the call over to Clint.

Clint Malin
Thank you, Pam. Good morning, everyone, and thank you for joining us today. We are pleased to have completed our second transaction with Fundamental in the past four months. The behavioral healthcare hospital investment in Las Vegas is a great opportunity to invest in an asset class that has garnered our attention in a risk-adjusted manner by adding the property to an existing master lease.

The recent sale leaseback with Fundamental in a newly constructed 126-bed skilled nursing center located in the Dallas-Fort Worth Metropolitan area is another example of investing in new and modernized skilled nursing centers and growing our relationship with an experienced and highly capable management team.

On our last earnings call, I indicated that our active pipeline was $125 million. Since then, we have completed $39 million of investments to acquire the three skilled nursing centers. Pam commented on the details of these transactions just a few minutes ago. Currently, we are working on approximately $100 million of off-market transactions consisting of acquisition and development opportunities of private pay assets all sourced through existing partner relationships. These transactions are in various stages of negotiation, and I look forward to providing an update on these deals during our next earnings call.

We continue to be selective in pursuing development opportunities, which has been an important part of our investment strategy over the past five years. This strategy brought four new operating partners into our portfolio, continues to reduce the average age of our portfolio, and increases revenues derived from private pay sources. We have been methodical and disciplined in our approach by selectively working with mainly growth-oriented operating companies and adding projects into existing master leases to provide an additional credit enhancement.

Although concerns of overbuilding is being talked about in the industry and undoubtedly occurring in some markets, lease up at our private pay developed projects has been strong and ahead of projections. As of yearend, we had an outstanding development commitment of approximately $90 million, which Wendy mentioned. In addition to expansion and renovations of existing properties, this outstanding commitment will add six new private pay communities to our portfolio, all added to existing master leases.

As Wendy mentioned in her remarks, recently we added Doug Korey and Mandi Hogan to our team. Doug comes to LTC with over 20 years of experience in the seniors housing and care space and is an NIC board member. Doug is a seasoned deal-making veteran bringing an extensive client base with him. In this business development role, Doug will expand our capabilities to originate additional mezzanine and preferred equity investments and drive growth of sale leaseback investments. Our goal is to methodically, strategically, and with a disciplined approach, develop the relationships with an operator base that typically has not utilized re-financing by offering the product more familiar to them. As new relationships are cultivated, we hope sale leaseback opportunities will eventually surface, helping to grow our portfolio of investments.

Mandi has a diverse background in sales and marketing and most recently was a Director of Marketing for NHI. Over the past three years at NHI, Mandi focused on building relationships with regionally based operating companies, mirroring our targeted customer base. Mandi will focus on elevating LTC's profile in the industry through strategic marketing campaigns, strengthening relationships with industry associations and sourcing relationships with operating companies that we do not currently know.

Mark Hemingway, who will be retiring at the end of the month, will remain with the company on a part-time basis to assist Mandi. Mark's ongoing involvement will allow LTC to continue drawing upon his years of experience and excellent reputation throughout the industry.

The addition of Doug and Mandi to our team, along with Brent Chappell, our Senior VP of Investment and Portfolio Management, continues to grow a team of highly talented and experienced professionals who will help drive future growth at LTC. The combination of this skilled team and attractive cost of capital positions LTC to be opportunistic in growing our portfolio.

Turning to our portfolio, for the same-store portfolio, the trailing 12-month period ended in the third quarter of 2015, EBITDAR lease coverage for skilled nursing is 2.27 times, assisted living 1.65 times, and range of care 1.75 times. EBITDAR coverage after an allocated management fee of 5% of revenues is 1.65 times for skilled nursing, 1.41 times for assisted living, and 1.28 for range of care.

Compared with the previous quarter, occupancy remains consistent across all property types. Occupancy for the trailing 12 months period ended in the third quarter of 2015 is as follows: skilled nursing 79.5, assisted living 85.8, and the same for range of care at 85.8.

Our quality mix for the portfolio remains strong with 51.5% of underlying revenue derived from private pay sources. Coverage in our skilled nursing portfolio decreased from basis points from the previous quarter. Four basis points of this change was attributable to annual rent increases under our leases and increased interest income resulting from the additional $40 million of loan proceeds funded to Prestige Healthcare in June of 2015.

EBITDAR coverage for the Prestige Healthcare portfolio consisting primarily of skilled nursing centers located in Michigan is very strong and approximately two times coverage for the trailing 12-month period ended in the third quarter of 2015.

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 in the third quarter, EBITDAR coverage, after an allocated 5% management fee of revenues, is 1.82 times with occupancy of 88.4%.

Lastly, as I commented during our previous earnings call, in 2015 we began evaluating opportunities to recycle capital by selling assets no longer core to our portfolio. As Pam discussed, our first asset sale occurred at yearend. Another property is under contract. I anticipate the sale of a handful of additional properties during 2016.

Now I will turn the call back to Wendy.

Wendy Simpson
Thank you, Clint. Pam would you comment again on our liquidity and our credit stats?

Pam Kessler
LTC is in an enviable position of having low leverage and ample liquidity to fund our current growth trajectory. We currently have $447.5 million of availability under our unsecured line of credit and $37.5 million of unsecured debt availability under our Prudential shelf. As Wendy mentioned, earlier this year, we put in place a $200 million after market offering program. We currently have the entire amount available under the ATM. At the end of the quarter, LTC's investment-grade credit metrics remained one of the best in the healthcare REIT universe with debt-to-annualized normalized EBITDA of 4.3 times, a normalized annualized fixed charge coverage ratio of 5.7 times, and a debt-to-enterprise value of 26%.

Additionally, we have one of the most conservative debt maturity ladders in the entire REIT universe with long-term debt maturities carefully matched to our free cash flow, thereby virtually eliminating any refinancing risk. In utilizing debt to fund investments, we have prudently matched our long-lived assets with long-term debt with 10 to 15 year final maturities. We believe our conservative balance sheet management provides us with the best opportunistic approach to financing our company's future growth and creating long-term shareholder value.

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

Wendy Simpson
Thank you, Pam. While we do have a pipeline of $100 million, investment activity in general feels light. It is maddeningly difficult to predict sale leaseback opportunities at any point in time. Seller decisions happen for so many diverse reasons. I place a large value on our ability to have the liquidity and the experience and the team to react quickly and decisively as opportunities present themselves.

Again, 2015 was a strong year for growth and for shareholder return and stability. Our goal is to continue growth in 2016, and I look forward to talking to you next quarter about our opportunities.

At this time, I am giving guidance for 2016 FFO of $2.95 to $2.99. This guidance is as always same-store based on what we currently have as investments and assuming certain completion dates for development. It does not include new investments or underwritings, issuance of shares or terming out any portion of our current outstanding line of credit.

Thank you for dialing in and I will now open the call to questions. Austin?

QUESTIONS AND ANSWERS

Operator
Thank you. We will now begin the question-and-answer session. To ask a question, you may press star then one 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 answered and you would like to withdraw your question, please press star then two. At this time, we will pause momentarily to assemble our roster.

Our first question comes from Jordan Sadler with KeyBanc Capital Markets. Please go ahead.

Jordan Sadler
Thank you and good afternoon. I was hoping that you could spend a couple seconds giving us your take on the skilled nursing outlook today as you see it and what you are thinking as you're underwriting new potential investments.

Wendy Simpson
We still have a lot of confidence in the skilled nursing sector. It has its challenges, and it always had its challenges. There has never been a year that I can think of that skilled nursing is an easy business to do. We continue to focus on the regional operator, regional or local operator who we think has more ability to respond to its current marketplace than maybe a national operator does. We are still underwriting at 8.5% to 9% lease rate. We think that the newer assets that can be added into a master lease still should be underwritten no less than an 8.25% lease rate.

There are challenges for the managed care, but our operators seem to be managing well to the changes in their environment. Clint and I have a schedule where we're going to go out and talk to each one of our larger nursing home operators to just get a one-on-one feel of what they're looking for in 2016 and beyond. So, we don't have any significant concerns for the business of the skilled nursing. I don't know, do you want to say anything, Clint?

Clint Malin
I think a lot of the headwinds recently have been focused on some of the larger national operators, and some of those operators focus on and have higher-than-average Medicare centers in their portfolio. So, obviously they're more impacted as a result of that, but in general, with the change in reimbursements to more of risk-based, value-add proposition, the providers have been preparing for this, and I think it's something it's not new. Industry has—Wendy mentioned that it always had challenges here and there, but it serves a purpose, and we still think there are opportunities in the skilled nursing space.

Jordan Sadler
Okay, that's helpful. It sounds like your underwriting has stayed somewhat consistent, and I keyed in on one of your comments at the outlook, Wendy, on looking at $90 million to $200 million type acquisitions, but none are fitting into the criteria. Can you elaborate there? Is there anything specifically that's not fitting? Is pricing just too aggressive or is it somewhere on the risk side that's troubling?

Wendy Simpson
Sometimes, the pricing is aggressive. Even though the cash flow might cover, the pricing is aggressive in terms of you looking at it on a comparative sale in the same state most recently. The age of the assets, we look at a large transaction like that between $90 million and $200 million, where would that place the operator in our strata of operators? Would it be a significant operator that we would probably want to be very conservative of adding a number one operator that we hadn't had before by investing a lot of money into a transaction? So, it's very hard to walk away from those opportunities. But I think our discipline has served us well in the past, and while we have gritted our teeth, we're still sticking to our criteria.

Clint Malin
And we also looked at a transaction where on the skill side where through due diligence, the penetration of managed care into the certain urban market had really—the properties we were looking at had not yet been impacted by that penetration, but you can see in the market where it was stronger and there is the potential for downside in that. So, we felt that the initial pricing of the deal just didn't work based on the potential penetration of managed care and how that might impact those assets on a long-term basis. So, it's something we definitely take into consideration in our diligence process.

Jordan Sadler
Okay, that's helpful. And then, just the last one on the dispositions obviously, you've got one done here and you're keying up some incremental. I think you said a handful for 2016. What's the criteria and the nature of the decision to punt some of these?

Clint Malin
It's a combination—one, looking at asset age, looking at markets where they're located and also looking at the operator relationship itself. If we don't have the ability to grow that relationship and we have a one-off asset in a rural market that's older, those are the type of opportunities that primarily have driven looking at recycling capital on assets in the portfolio.

Jordan Sadler
More AL or more skilled?

Clint Malin
Probably more skilled.

Jordan Sadler
Thank you.

Wendy Simpson
Thank you, Jordan.

Operator
Our next question comes from John Kim with BMO Capital Markets. Please go ahead.

John Kim
Thank you. So, on skilled nursing, the coverage declined in the third quarter. Do you have any views on how the fourth quarter is going to turn out?

Clint Malin
Right now, we look at current information on an annualized basis as well and look at it on last quarter. It's hard to take smaller snapshots of the portfolio for less than a 12-month period. So no blurring

changes that we see. It's always going to ebb and flow a little bit, but nothing that stands out that's causing significant changes where like some of the headwinds you're hearing about some of the large national providers.

John Kim
Okay, and can you remind us when you get clarity on this? We're already two-thirds into the quarter. Are you still waiting for some of your operators to report to you?

Clint Malin
We have one quarter in arrears, so, we've got to get that information. We received February servicing, some reports. It takes a while to go out and incorporate that into our model to flow it through and analyze it. So, we always report a quarter in arrears.

John Kim
Okay, on your mortgage loan book, it's increased significantly over the past year. How large do you want this to be a part of your overall investment? I think now it's almost 15% of your total investments?

Clint Malin
Well, the primary driver on the mortgage side is our investments in Michigan. And those are skilled nursing assets, and structurally how reimbursement works in Michigan, it's challenging to do lease structures there. So, we basically have done 30-year mortgages, which basically embody many elements of a lease, and that's really just more of a structuring item related to the state of Michigan.

Wendy Simpson
But in terms loan loans, like mezzanine loans or short-term bridge loans that we're looking at, I don't expect that we are going to go much over $50 million.

John Kim
Okay. The provision that you had, the provision for doubtful account, can you just describe what the cash flow is of that loan? Is the borrower no longer current on the interest payment?

Wendy Simpson
Sure. That is just a required provision upon loan origination. So, GAAP requires that when you originate a loan, you make an estimate of the provision, and we use a 1%. So every time we fund a loan or originate a loan, we take 1% of that balance and record the provision. And then, as the loan amortizes, it's amortized as revenue into that line item. So, it's just an accounting feature; there is no cash on it. There is no cash implication.

John Kim
But the loan loss reserve, is that in relation to what you think you'll be repaid?

Wendy Simpson
Yes, it is an estimate based on the history of the company which is less than a 1% loss on our mortgage loans. So, we use the 1% as an estimate.

John Kim
I see, I got it. Okay. And then your guidance for the year, it basically suggests at the midpoint that there is no growth compared to the fourth quarter run rate, and you do have some developments coming in line, but can you just remind us what the offset to the organic growth that you have is?

Wendy Simpson
We'll go into the range.

John Kim
I think the midpoint suggests no growth for the fourth quarter.

Wendy Simpson
I think it's just our conservative guidance. I hadn't taken the fourth quarter and annualized it, I just looked at the year. So, I am at a loss to explain what your calculation is.

John Kim
Maybe, can you just go through those assumptions one more time, please?

Wendy Simpson
The assumptions of our 2016 is all of our assets that we have today, including the fourth quarter with any unusual things taken out of the fourth quarter, and adding in the development activities as we assume the developments will be finished, we've taken the low point is assuming a certain amount of asset sales that would happen the first quarter because we had to put them in some quarter. So, it assumed all the asset sales that we have anticipated happen at the first quarter. So, that would be taking out some revenue. It's unlikely because we sit here at February 22nd, and we don't have any of those sold yet, other than the one we reported on.

John Kim
And you mentioned no acquisitions in your guidance, correct?

Wendy Simpson
Correct. No acquisitions.

Pam Kessler
And using the outside date for development completion and revenue recordation.

John Kim
Okay, thank you.

Wendy Simpson
Thank you, John.

Operator
Our next question comes from Rich Anderson with Mizuho Securities. Please go ahead.

Rich Anderson
Thanks and good morning out there.

Wendy Simpson
Good morning.

Rich Anderson
So, did you give a dollar figure for the dispositions that you've got thinking about?

Wendy Simpson
No.

Rich Anderson
Are you? So, when you just told John that the low point of your guidance assumes the asset sales in there, I mean, what's the number?

Wendy Simpson
Yes, if you would take a penny, a quarter, I think that would be reasonable, a reduction of FFO by a penny a quarter.

Rich Anderson
From dispositions?

Wendy Simpson
Yes.

Rich Anderson
Okay. What were you going to say?

Wendy Simpson
Our total disposition is not a significant number, and if things go like we think, we'll net out a capital gain.

Rich Anderson
Okay.

Wendy Simpson
But we are foregoing some revenue.

Rich Anderson
Okay, sure. So, you mentioned some of the competitive pressures, that you haven't been able to cross the finish line in some deals, and specifically on skilled nursing, you had a floor lease yield still 8.25%. Is it because people or the buying public is aggressive, so there is a lot of money still chasing these assets or are you adjusting down the profitability of the underlying businesses because of Medicare bundling and so on and how that impacts the lease yield? What are the driving forces that are making that 8.25% number tough to pencil? Is it on the buy side or on the operating side that are driving it down?

Wendy Simpson
I think people are still overpricing their assets. They haven't come down to, well, a reasonable price, a price that we would be willing to buy at this time. So, I think that's the biggest point.

Rich Anderson
Is it interesting to you that people are still willing to be aggressive despite some of the question marks surrounding the business rate at this juncture?

Wendy Simpson
Well, it doesn't seem to be coming from our brethren REITs who seem to all have said that they're finding acquisitions difficult to do. It seems to be coming from the sellers who maybe are a little late to getting to the party. So, it's not that we're seeing an aggressive other buyer, though I think a couple of these deals may be getting done with other financing sources. I doubt a REIT, but there are other

sources coming into the marketplace which might be private equity or something like that. Clint, I think you might have—

Clint Malin
Well, I agree. Listening to earnings calls this quarter, it sounds like, as Wendy mentioned, REITs are being disciplined. There is some change in cost to capital which I think obviously is affecting the appetite at least from the REIT perspective. Private equity is still out there. You have some money on the non-traded REIT side still to be deployed. There is a price discovery point or phase that's going on right now and trying to figure out where in the market pricing is on these transactions. So, I think sellers still have that expectation. It takes a little bit of time once the cost of capital changes happen, and so it's just a process through 2016 I think we end up working through. But there still are opportunities that we see, and I think we believe we've got an advantage on a cost of capital basis right now to find assets that are newer, modernized, and the companies we want to partner with in growing our portfolio. So, there is going to be opportunity.

Rich Anderson
So, you're saying sellers are in some cases asking too much still?

Clint Malin
Correct.

Rich Anderson
Okay, good. What is the average escalator in the portfolio today and how much of it is fixed and how much of it is CPI-based?

Wendy Simpson
About 225, 250.

Clint Malin
And most of it would be fixed.

Wendy Simpson
It is fixed, yes.

Rich Anderson
Okay, and then last question to you Wendy, but a lot of times when you issue guidance, you have an optimistic undertone to the future assuming you complete some acquisitions and not that you come out and say it, but you get the sense that guidance is going to go up. At least that had been my read. This time not so much, but is that my imagination or do you feel like this range that you're giving today is maybe not as subject to lift because of some of the difficulties you're finding deploying capital in this marketplace?

Wendy Simpson
Well, there are couple of things, Rich. Pam was just saying before we took the call about how the debt markets are a little bit different right now than they have been for quite a long time. Even with the ten-year as low as it is recent debt issuances that we would be compared to are fairly high in the 6% or 7% range. So, I'm feeling that the debt markets aren't someplace that we would be comfortable using additional debt, and you know my conservatism relative to the balance sheet. We have plenty of money on our line, and we have access to some money from our shelf still and the ATM, but stock prices have to be right for us to use the ATM.

I'm a little bit cautious about all of these financial inputs in the market, from the debt markets, from the equity markets and from our balance sheet. I don't want to step out in front of the debt markets. And if we had a really, really good opportunity in front of us to do a deal, I think we still have access to reasonably priced equity, and we might use that opportunity, but right now I just don't see clarity in where we're going to go for this year. I hope we have things that happen and we can issue positive increases in our guidance, but I wouldn't say that right now.

Rich Anderson
Good color. Thank you very much.

Wendy Simpson
Thank you, Rich.

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

Michael Carroll
Thanks. Clint, can you give us some additional details on the drop in the SNIF coverage? I believe you indicated the drop related to two things, rent increases and the draw down on the Prestige loan. Can you break out the impact of each one of those?

Clint Malin
Sure, I indicated that of the seven-basis-point drop, four basis points were attributable to just annual escalators in our leases that occurred, and then the funding of that $40 million of the additional loan proceeds with Prestige Healthcare on our Michigan loan portfolio. So, of that seven-basis-point change, four of it related to interest income and the rent escalator. So, that's the primary driver of the change in coverage.

Michael Carroll
Okay, and then can you give us, what was the coverage of the Prestige loan before and after the additional drawdown?

Clint Malin
I said it was two times on the trailing basis. The before coverage—they've driven some changes operationally that accounted for that. So, it's similar because they've been ramping up a lot of operational opportunities. We do expect though going forward that period only had a three-month inclusion of increased income. So, as we go forward into the following quarters, you will see more impact on the rent side, but our anticipation is that they're going to drive operational efficiencies and increase revenues to offset that. So, we may see a little bit of moderation on that two-times coverage, but we still expect it to be a very healthy coverage. Anytime you're above 1.5 times in skilled nursing I think is very, very strong coverage.

Michael Carroll
Okay, and then can you give us an outlook of what you're thinking about on the senior housing development side? Is it more difficult to find new projects, given the pickup in construction activity? Are you guys taking a step back in that or are you still excited by it?

Clint Malin
I mean, we're very cognizant of what's happening in the market. There was definitely talk about overbuilding in certain markets. One thing we definitely can see is that prices are increasing for our labor and materials, and there have been some projects that we've not been able to pencil because of

increased costs. But at this point, we are working with partners in our portfolio being able to add new projects into master leases that act as credit enhancements, and I think the partners that we're working with, they're disciplined. They're not trying to get ahead of themselves and grow too much. They're trying to grow a platform, and they have to live with these investments long-term, because it's not like we're partnering with them and we're looking to be opportunistic and sell the asset in four, five years. We're going to own these properties for a long-term and our partners are going to lease them for at least 15 years. So, we're being very disciplined and methodical about how we add in development projects. At this point, we're probably not looking at bringing in a lot of new operating partners on the development side. There is always a possibility of something unique coming along, but we're really trying to grow out our existing relationships, and we think that really helps to add a credit enhancement to these development projects by adding more into the same master lease.

Michael Carroll
Okay, great. Thank you.

Clint Malin
Thank you.

Operator
Our next question comes from Paul Morgan with Canaccord. Please go ahead.

Paul Morgan
Hi, good morning. In terms of the pipeline that you're working on right now, and you mentioned that it seemed like it was off-market assets with existing partners or opportunities for development as well, do you think that should translate into a higher conversion rate for those deals than what you saw maybe over the last quarter in terms of the larger portfolios that didn't pan out?

Clint Malin
Definitely increases the conversion rate. They're smaller transactions, one to two properties. So, although not guaranteed, but I think there is a fair likelihood that we will execute on a good portion of these.

Paul Morgan
Okay, great. And then, you talked about how it's difficult to kind of pencil out deals right now in the market, but what are your operator partners thinking about growth right now? Do they still have the appetite and it's just a matter of finding product or are they more conservative now in the context of some of the industry challenges?

Clint Malin
I think definitely have the appetite; it's just finding the right opportunities. A great example of that is with the two skilled nursing facilities we bought with senior care centers. They've found an opportunity where there was a truly a mom and pop operator. We were able to source this transaction and this mom and pop didn't want to continue having to deal with increased reimbursement or dealing with basically managed care and how to interpret that. So, great way to grow relationship with senior care through that, and when companies can go ahead and add in properties to their existing footprint, that's a more secure environment and helps them offset some overhead on that as well.

Paul Morgan
Great. And then just lastly, maybe you could kind of talk a little bit of background about bringing Doug Korey on and targeting more mezz lending as part of your investments. Was that an opportunistic

move or is it something you've looked at over the past year or two and said we would like to do more here, have an even a bigger platform in terms of the mezz part of what we do?

Clint Malin
Sure, it's something that we've looked at for a couple of years now, and we have talked to Doug about doing this with other companies he has been employed with. So, we've got a familiarity with him over the past couple of years and looked at some opportunities together. We just think it makes a lot of sense on a major basis to go ahead and incorporate this as a product offering in the portfolio because really it goes to being able to work with operating companies and offer solutions, different types of capital.

There is definitely a percentage of the operator population that just have typically not used REIT financing because they like the idea of owning their assets. But as those companies grow their organizations, sale leasebacks could be a very viable component of their capital structure. It doesn't mean we have to own all the assets; it really just provides different options with these operating companies. If we can get into those organizations sooner and develop relationships, we're hopeful that we can cultivate those relationships and turn them into offering some sale leaseback financing over time.

Paul Morgan
And, Wendy, did I hear you right, you thought that maybe this could be a $50 million annual business for you?

Wendy Simpson
Yes, that's our internal projections of what we think. One of the good things or interesting things about Doug working with us is that, and hopefully the very, very few times a deal doesn't work out, we would be the lender who would be able to bring in the new operator. We're not like a bank who would maybe flounder around a little if there was some sort of problem with the property. So, his ability to underwrite and his connections in the industry that we don't have the part of the industry that we don't have connections with right now, along with our portfolio of operators who could assist us if anything happened, it just made a lot of sense to bring Doug onboard, and we just had a unique opportunity that he was available.

Paul Morgan
Okay, great. Thanks.

Wendy Simpson
Thank you.

Operator
Our next question comes from Karin Ford with Mitsubishi UFJ. Please go ahead.

Karin Ford
Hi, good morning out there. Just wanted to follow up on, Wendy, your answer to Rich's question, just get your thoughts on leverage. You mentioned, as you said, the conversion of the preferred brings your leverage down, but you are concerned about volatility on the capital market side. Can you just give us an update on your thoughts as to where you think the right level of leverage is for the company in 2016?

Wendy Simpson
I continue to think that 30% debt to enterprise value is the high. If we did a transaction and went over that, you could anticipate that there would be an equity transaction pretty soon after that. We continue to be able to borrow on a basis where we can fit our maturities into our cash flow, and that's very important for us to not look ahead and see a wall of debt coming due. So, I still think 30% is an area that's most comfortable for our company.

Karin Ford
And you mentioned your reluctance to go into the debt market. Do you have additional availability under any of your current debt shelves with AIG or Pru?

Pam Kessler
Yes, Karin, this is Pam. We have $37.5 million available with Pru.

Karin Ford
Okay, great. And then just on the SNIF portfolio in the coverage, is there a lot of variation around the 1.65 EBITDAR coverage? Do you have anything, say, below 1.4 times on that basis?

Clint Malin
We have not decided to break out coverage by operator. There is a range we have—Prestige which is up around 2 times, there are some buildings that are below 1.5 times. So, there is some diversity, but we haven't provided that detail other than a couple of portfolios where, like Brookdale is an example where there has been questions in the market regarding what's happening and then specific to—we provided Prestige just to provide some color on what happened from quarter-over-quarter. So, we tried to keep it very general by providing it for the portfolio as a whole.

Wendy Simpson
But of our major operators, none of them are of concern.

Clint Malin
Correct.

Wendy Simpson
So, there has been no precipitous drop in any major operator.

Clint Malin
Correct.

Karin Ford
That's helpful. My last question is just on the Slinger lease-up. I think you mentioned last quarter that you were expecting a move to United Healthcare on November 1st to boost leasing velocity there, so it picked up quarter-over-quarter. Can you just talk about your outlook, whether it's going to hit the stabilized 85% occupancy level before the two-year anniversary?

Clint Malin
Sure. We talked to our Fundamental about that recently, and they do have that contract in place. So, they're starting to see movement under that. They have a big relationship in other markets with United. So, as of right now, we believe that those will be achieved within the 24 months. Our stabilization will be achieved within the 24-month period.

Karin Ford
Okay, and then Corpus Christi, the rent inception just got delayed a quarter. Anything we should read into that at all?

Clint Malin
No, nothing to read into.

Karin Ford
Okay.

Wendy Simpson
Thank you, Karin.

Operator
Our next question comes from Chad Vanacore with Stifel. Please go ahead.

Chad Vanacore
Hi, good afternoon.

Wendy Simpson
Hi.

Chad Vanacore
So, thinking about the size of your pipeline, you said about $100 million. That seems to be down a bit from the $125 million we were talking about last quarter. And are you seeing a slowdown as a result of price dislocation that you alluded to or cost of capital or something else?

Clint Malin
We are seeing a little bit of a slowdown in volume of deals that we're seeing, and that's both on skilled nursing and on the senior housing side. It's not uncommon that in the first quarter you'll see activity not as strong as in other quarters. So, it could be possibly that, but just in general with price discovery going on right now, we've seen some assets and portfolios that have come back on the market. So, there obviously has been a question in the marketplace about pricing of those deals. So, that could be leading to it as well. So, I think we'll probably have a better feel next quarter being if it's truly just the first quarter impact or if we're seeing really just a slowdown in general because of cost of capital and price discovery continuing.

Chad Vanacore
All right, so, Clint, that feeds into my next question, which is, then, you increased your capital availability, you exercised the accordion feature. Why now? Why is the time now to do that?

Wendy Simpson
Well, at a point it looked like we had more opportunity in the $90 million or $200 million, so we needed the ability to make those investments. We don't want to send out a letter of intent with a financing contingency. So, at the point that we pulled on the accordion, it looked like we would be doing some large transactions. So, it does hurt to pay those fees to get the additional liquidity, but we would have needed it had we completed successfully the underwriting. So, it was a chicken and an egg.

Chad Vanacore
All right, thanks, Wendy. So, given your comments on the debt market, would you be willing to let the revolver balance run longer than usual before terming it out?

Wendy Simpson
Right now, yes. There seems to be significant dislocation between—

Pam Kessler
The volume on the line is low right now.

Wendy Simpson
Yes, well, the rate on the line is low, and we don't have a lot of acquisitions coming up on our horizon that we currently see. I think we've also seen some acquisitions where just preliminary information was the assets were much older. We're not looking to add a portfolio of older assets. If there were older assets in a portfolio that had a balanced asset life, we wouldn't forego that, but if the portfolio predominantly has older assets, it's more difficult for us to go forward on a transaction.

Chad Vanacore
All right, so then, just thinking about best capital opportunities in 2016, how would you rank acquisitions, loans, development and other?

Wendy Simpson
I would say our best opportunities are with loans and then acquisitions. I think Doug is just getting his group together. He has got an analyst working with him. He now understands LTC and what our strategy is, and he has an amazing group of people that he's done business with in the past. So, I look forward to Doug bringing on some good short-term revenue. We're totally open for acquisitions. I think our development is going to be a little lower than it has been in the last couple of years, but we're going to continue doing it with the operators that we've already underwritten. But that's how I feel it, the first opportunities we have. Now, next quarter it might be different than that.

Chad Vanacore
All right, well, thanks for all the color. I appreciate it.

Wendy Simpson
Thank you, Chad.

Operator
And again, if you would like to ask a question, please press star then one.

Our next question comes from Todd Stender with Wells Fargo. Please go ahead.

Todd Stender
This is for you, Clint. I know you don't provide coverages by operator. Just seeing if you'd consider opening that up some. We certainly have the fixed charge coverage for Genesis at the parent company level, but we get it from Well Tower and HCT. I imagine they're in good shape in your portfolio, so it might shine through to investors better. Just want to get your updated thoughts there.

Clint Malin
So, we can talk about internally?

Wendy Simpson
Yes, we can continue to talk about it.

Pam Kessler
Allocation of resources.

Wendy Simpson
We gave—

Clint Malin
We gave for Brookdale.

Wendy Simpson
We gave for Brookdale, we gave Prestige.

Clint Malin
We gave for Prestige Healthcare.

Pam Kessler
But I think Todd's asking for something more formal like a scatter plot, like some of our peers do. Is that what you're asking, Todd?

Todd Stender
Yes, exactly.

Pam Kessler
And then you do a cost benefit analysis, and as we said, with the highest coverage amongst our peers, how much more benefit does the [audio disruption] provide?

Wendy Simpson
[Audio disruption] there too.

Pam Kessler
Yes, a little shout-out there, yes, our buddies at NHI. But you do a cost benefit analysis internally, and is it really providing that much more benefit versus the cost for a smaller cap REIT in internal resources to generate something like that quarter-over-quarter? But we take your comment to heart, and we will continue to evaluate that.

Todd Stender
Okay, thank you. And just looking at the recent investments, the behavioral healthcare hospital, as you made that investment you made in the quarter, I don't know if I missed it, did you give the coverages, EBITDAR coverage on that, and then if you can give little more color on the additional financial commitment you have with that?

Clint Malin
We're doing a renovation project at the hospital with Fundamental, so the coverage on that should be north of two times coverage on that project.

Wendy Simpson
But it's not fully operational—well, it's operational now, but it's not, they haven't put in all the programs that they will put in by the time they get all of their capital deployed. So, it's going to be a while before we consider it operating at its normal operation. But it's open, and it's generating revenue under Fundamental's master lease.

Todd Stender
And they're paying rent on that?

Clint Malin
Absolutely.

Wendy Simpson
Yes, indeed.

Todd Stender
Okay, thank you. And then at the SNIF, any more color you can give on the SNIF you acquired already in Q1? That's under the same master lease?

Clint Malin
Yes, it's the same master lease. The property started operations in mid-2015, so it's leasing up strong. This is the third project that we've been involved with Fundamental, this one on the acquisition that's been a brand new property. So, they have done a great job in looking at opportunities, designing, developing and leasing up properties. They have a lot of experience at it. They have a presence, obviously in Texas as well as in the Dallas-Fort Worth market, they've got strong relationships. So, we're excited about that opportunity with them, and it's exciting to have newer modernized assets continuing to include those into the portfolio.

Todd Stender
And what's the lease-up period on a property like that and what market is it in?

Clint Malin
It's in the Fort Worth market. We typically underwrite these up to 24 months on stabilization. Obviously, we're anticipating it to lease up a lot sooner than that, but that's what we provide for as underwriting.

Todd Stender
Thanks, Clint. And Pam, if I could just finish with you. Based on Wendy's comments, it sounds like maybe the spreads are widening in the debt markets. Can we hear your current thoughts on the debt market, and I know your preferred is now gone, but is the preferred market open to you guys? Is that an increasing probability this year?

Pam Kessler
No, the preferred market, I think, the rates are just too high in the preferred market. We've always been very opportunistic in terming out our line with debt, and we'll continue to be. We're watching the markets right now. Like I said, we have $37.5 million available with Pru, and should spreads compress in as the ten-year remains low, then it's a possibility. It's just right now what's happened in the past couple weeks with spreads and the general volatility in the debt markets, it's not an opportunistic time to term out debt.

Todd Stender
Okay, thanks, Pam.

Pam Kessler
You're welcome.

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, Austin, and thank you all for dialing in and participating. And if we don't see you before our first quarter call, I look forward to talking to you then. Have a great day. Bye.

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