LTC Properties Inc.

4Q16 Analyst and Investor Call

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CORPORATE PARTICIPANTS

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

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

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

PRESENTATION

Operator
Good morning, and welcome to the LTC Properties Fourth Quarter 2016 Analyst and Investor 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 your telephone keypad. To withdraw your question, please press star then two.

Before management begins this presentation, please note 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, 2016. 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. Please go ahead.

Wendy Simpson
Thank you, Anita. Good morning. Thank you for joining us for our 2016 fourth quarter and year-end investor call. I'm looking forward to presenting our achievements in 2016, and after my initial comments I'll ask Pam Kessler, LTC's Executive Vice President and CFO to comment on our financials; and Clint Malin, LTC's Executive Vice President and CIO to comment about our 2016 transactions, our pipeline and our operator's performance.

In calendar 2016, LTC increased FFO by 10.5%. We increased our monthly dividend beginning in the fourth quarter by 5.6%. We strategically utilized our ATM to issue shares at attractive prices and accessed our relationships with insurance companies to issue unsecured long-term debt at favorable rates. We grew the balance sheet and completed or underwrote investments and developments totaling approximately $142 million.

At the end of 2015, we had investment commitments totaling $89 million. These dollars were heavily skewed to building standalone and combination memory care and assisted living properties. At the end of 2016, we had approximately $82 million of investment commitments. Of that amount, approximately $56 million is committed to building a new skilled nursing property in Kentucky and investing in expansion and renovations of our Michigan skilled nursing properties and other properties in LTC's portfolio. The balance is primarily for investments in memory care and assisted living properties.

When we began approximately four years ago to work with our operators to build new memory care property, we made it clear to our investors that we were not turning into a development company. And that at some point development would taper off. We are now seeing that. This is a normal and somewhat predictable cycle, and we are comfortable with where we currently have to complete this year and in 2018. Also in 2016, our operator at Oxford opened the first all independent living building we funded. Independent living is a possible growing area of potential business for LTC, and I'll comment more on this later.

I'll now turn the call over to Pam.

Pam Kessler
Thank you, Wendy. I'm pleased to report that 2016 was another great year for LTC. NAREIT FFO on a diluted per share basis increased 10.5% to $3.06 per share. For the fourth quarter of 2016, diluted FFO per share increased 5.4% to $0.78 a share. These strong results were driven by top line revenue increases resulting from investments, completed development and capital improvement projects, as well as lease and loan amendments.

Funds Available for Distribution or FAD decreased during the quarter as a result of one-time lease incentives related to master lease combinations, lease extension, and properties in lease-up. Based on currently leases in place, we anticipate non-cash revenue will be approximately $3.7 million in the first quarter of 2017, which is comparable to the third quarter of 2016. Wendy will give formal FFO guidance for 2017 in her prepared remarks; however, we are currently projecting a 5% increase in FAD for 2017.

During the quarter we recorded a $766,000 impairment charge related to a property in Texas that we anticipate selling in the first quarter of this year. This property generated revenue of approximately $200,000 in 2016. We were active on the investment front during the quarter, acquiring a parcel of land in Illinois and committing a total of $14.5 million to construct a 66-unit memory care community with the Anthem. We also entered into a mezzanine loan commitment for the development of 127-unit independent assisted living and memory care community in Florida, and we invested $12.5 million in a mezzanine loan that Clint will discuss in more detail.

Additionally, we invested $9.5 million in various development and capital improvement projects and completed construction and opened a 108-unit independent living community in Kansas. This property sits adjacent to an assisted living and memory care community we developed and opened with the same operator in 2013. In the fourth quarter we received $6.2 million in principal payments and mortgage loan payoffs, and increased our monthly cash dividend by 5.6% to $0.19 a share.

During 2016, we took advantage of opportunities in the debt and equity capital markets to term out our revolving line of credit and raise capital to fund our investment activities. We issued $80 million of equity under our ATM program at an average gross price of $48.69 per share. Additionally, we raised $77.5 million in proceeds from the sale of senior unsecured notes, including our lowest historical coupon for ten-year average life debt of 3.99% back in July. We continue to carefully align our debt maturities with projected free cash flow, thereby reducing future refinancing risk while maintaining an investment grade credit profile.

During the first quarter of 2017, we raised $14.8 million in gross proceeds under our ATM program, selling 312,881 shares of common stock at an average gross price of $47.42 per share. Proceeds were used to pay down debt and fund investment activity.

With the prospect of future interest rate hikes on the horizon in 2017, we opportunistically elected to term out the balance of our revolving line of credit last week. In a private-placement transaction we sold $100 million of senior unsecured note to a group of institutional investors. The notes have a 4.5% coupon and scheduled principal payments with a final maturity in 15 years. With this significant capital raising activity completed, LTC is well prepared to take advantage of investment opportunities in 2017, with liquidity of $600 million under our line of credit, $36.7 million under our shelf agreement with Prudential, and $185.2 million under our ATM program, totaling more than $820 million in availability.

Pro forma for the completed 2017 capital market transactions and scheduled principal payments to-date, our investment-grade credit metrics remain exceptionally strong with a pro forma debt to annualized normalized EBITDA of four times, a normalized annualized fixed charge coverage ratio of 4.9 times, and a debt to enterprise value of 24.4%.

I'll now turn the call over to Clint.

Clint Malin
Thank you, Pam. LTC had another strong year of investment activity. Including the two mezzanine loans Pam just mentioned, we finished 2016 with $142 million in investments and underwritten development commitments. Over the past five years, LTC has deployed $1 billion of capital, with 50% invested in private-pay seniors housing assets. This strategic and major growth has continued to reduce the average age of our portfolio, diversified revenues generated from private-pay assets and contributed to reducing our cost of capital relative to our peer group over this timeframe.

As I mentioned on our previous quarter's earnings call, the sale leaseback deal flow began to moderate at the end of 2016, and this has extended into the first quarter. While we continue to see a number of large marketed skilled nursing deals, they are not a strategic fit for our portfolio and pricing for private-pay assets continues at a premium. We have not changed our underwriting standards and have continued to underwrite to stabilize rent coverages of 1.5 times for skilled nursing assets and 1.2 times for private-pay assets including a 5% management fee.

This discipline and consistency in our investment underwriting has served us well historically. We do not feel current market conditions warrant an aggressive acquisition strategy given the amount of capital chasing deals and new development coming online. Coverage for our existing portfolio, which I will discuss shortly, is reflective of our disciplined underwriting. Nonetheless, during the fourth quarter we did identify some solid opportunities to deploy capital at an attractive risk adjusted rate of return through our mezzanine investment program. We entered into a seven-year $3.4 million mezzanine loan commitment to finance construction of 127-unit private-pay develop project which Pam mentioned. This was a follow-on transaction with an operator we began a relationship with in 2015 on a similar project. The interest rate on this loan is 15%, with 5% being deferred during the first three years. Beginning in the fourth year of the loan, the current pay interest rate increases to 15%.

The $12.5 million of our mezzanine loan that Pam also mentioned was purchased by LTC in an off-market transaction. We acquired an existing five-year note that was originated in November of 2016 to partially finance the $1.1 billion acquisition by a joint venture between affiliates of Lindsay Goldberg and affiliates of Omega of a portfolio of 64 skilled nursing centers from Welltower. The properties are operated by Genesis under a long-term triple net lease. This investment is well secured with approximately 30% of the purchase price being funded with equity from the joint venture.

The variable interest rate on the loan is LIBOR plus 11.75%, generating an effective annualized yield of 12.5% as of February 1st. Since beginning our mezzanine financing program in late 2015, we have committed approximately $20 million in mezzanine loans. Similar to our development financing program which we began in 2011, we have been deliberate in our approach in allocating capital to mezzanine loans, exercising discipline in underwriting standards and making investments at a measured pace. This discipline and pace is evidenced by the fact that we have deployed just under 50% of the $50 million target we established in 2015.

Additionally, pacing results from Doug Korey's responsibilities encompassing business development for the company in general not exclusively dedicated to mezzanine investments. Mezzanine financing has broadened LTC's capabilities and expanded our reach in meeting operating companies in the industry. We will continue to evaluate our $50 million investment target for mezzanine financing as our program matures.

Currently our pipeline has approximately $50 million in investment opportunities all with existing operating partners. The pipeline consists of all off-market opportunities and includes new development and investments in newly constructed projects. Our current pipeline is reflective of our stated strategy of investing in newer properties. LTC is well positioned with its experienced management team, attractive cost of capital and balance sheets strength to capitalize on investment opportunities as they arise during 2017.

Looking at LTC's portfolio, Q3 trailing 12-month EBITDARM and EBITDAR coverage on a same-store basis is 2.05 times and 1.49 times for our skilled nursing portfolio, and 1.5 times and 1.27 times for our assisted living portfolio. Coverage metrics for LTC's portfolio remain comparable with the prior quarter. Please note, EBITDAR rent coverage for LTC's portfolio is calculated using a management fee equal to 5% of revenues. In comparing LTC's rent coverage to our peer group, EBITDARM is a better metric of comparison as different management fee percentages may be used to calculate EBITDAR.

Since 2015, we began to selectively recycle capital on non-core assets in our portfolio. The property that we anticipate selling in the first quarter which Pam mentioned is consistent with the strategy. During 2017, we will continue to strategically evaluate our portfolio, and we will opportunistically look to recycle capital on non-core assets.

Now I'll turn the call back to Wendy.

Wendy Simpson
Thanks, Clint, and thanks, Pam. Right now, as Clint mentioned, we're predicting a slow investment year for the traditional sale leaseback transaction. Again our $82 million of commitments will begin providing FFO late in 2017 and into 2018, fueling growth for 2018 regardless of deals we do in 2017. We have $50 million in our pipeline, and we have looked at several transactions so far this year, but have not been able to see the transactions as accretive or complementary to our portfolio and strategy.

However, as Clint mentioned, we're well positioned to capitalize on the appropriate opportunities. At a recent industry conference, we met with operators and did quite a bit of listening. We heard that the need of independent living may be almost as demographically strong and feasible as the need for memory care was five years ago. LTC has not been a significant investor in this segment, but we are looking at opportunities in 2017.

We heard that some operators do not like to triple net lease primarily because they find it illogical to invest their money in capital improvements to buildings they do not actually own. The money they invest is really equity money, because they actually cannot get bank loans to put a new roof on a building or build a new wing on a building they don't own.

We've always been and remain willing to work with operators to add additional accretive building capital to our properties. We will work with operators to craft these provisions that would provide for a modified triple net lease where we would make additional capital available for a certain cost of capital. We have always been supportive of investing more capital in our properties, but traditional triple net leases do not explicitly state that, and we believe provisions can be provided to address this concern.

We heard operators wanted their landlords to be more like partners and have aligned interest. They would like to see the landlords participate in the ups and downs of operations rather than have set rent bumps every year. In all honesty, this has been a discussion point for as long as I can remember, and it always pops up in the environment where headwinds are strong and never when the operators are more secure in predicting their bottom lines.

Well, LTC is not currently going to join the RIDEA community, we are willing to look at lease structures that have CPI increases or percentage of revenue increases. We heard that there are significant alternative fund sources around and heard most often that private equity was being aggressive. Again, we have now been in this industry for 25 years and have seen funding sources come and go. We will remain in the senior housing sector when this cycle ends and when the next cycle begins.

Pam mentioned that we did some additional ATM sales which added equity to our leverage calculation as we continue to maintain LTC's conservative balance sheet. Pam mentioned that recognizing the high likelihood of rising interest environment, we termed out $100 million of our line of credit at an attractive rate, leaving us virtually undrawn on the $600 million line. These stock sales and the higher interest on the longer-term debt, while well timed for the long-term outlook of LTC did cost us $0.8 in FFO for 2017.

Factoring in that cost in our guidance for 2017, FFO, without further investment activity during the year we're setting the 2017 guidance between $3.08 and $3.10. And Rich, if you're on the line, I'm sorry I kept this to the end again, and I'll endeavor to mix it up in 2017.

Thank you for your attention. And I'll now open it to questions. Thank you, Anita.

QUESTIONS AND ANSWERS

Operator
We will now begin the question-and-answer session. To ask a question, you may press star then one on your telephone keypad. If you are using a speakerphone, please pick up your handset before pressing the keys. 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 Paul Morgan with Canaccord. Please go ahead.

Paul Morgan
Hi, good morning. Just a quick question on the guidance, so I guess that's around $0.77 run rate. How should we think about that relative to what you just reported, and sort of any puts and takes relative to capital? I guess you did your debt financing, that's one aspect of it, but anything else that is a drag relative to the 4Q run rate?

Wendy Simpson
No.

Pam Kessler
No.

Paul Morgan
Okay. So basically, then, it just includes where you ended the fourth quarter, adjusted for, I guess, the full-year impact of the ATM issuance and the debt financing you just did, and not including any incremental acquisitions?

Wendy Simpson
Correct.

Pam Kessler
Exactly.

Paul Morgan
Great. Thank you. On one hand, you kind of talked about you have $800 million of dry powder, and on the other hand, pretty conservative about kind of what you're seeing in the market. I'm just wondering whether, in terms of your comment about working maybe more flexibly with some operators in terms of building in percentage rent escalators or more flexible structures, has that been a stumbling block that's kept you from kind of securing some acquisitions that you've worked with or been in discussions about or is that just maybe kind of being more proactive?

Clint Malin
That's just us being more proactive in looking forward and having conversations with operating companies, but I'd say pricing and coverage has probably been more of the challenge on deal flow.

Wendy Simpson
We kept hearing global phrases, like the triple net lease is dead, but we see some of our competitors are doing triple net leases in 2017, so obviously it's not dead. But what we wanted to do when we were talking to these operators is saying, well, if you think it's dead, what caused its death? So these were some of the things they talked about. We do not believe that the triple net is dead. We have several operators who like the triple net concept and look at the buildings as really their own buildings since they have them for almost the life of the building. But if that were a stumbling block, we want operators to know that we're willing to talk about those issues.

Clint Malin
And effectively from a capital deployment standpoint, as Wendy mentioned, we practically operated that way. When additions, renovations have come about, we've been very proactive, and even though we don't have an obligation in the lease to do that, that's how we've effectively operated in growing relationships with operating companies.

Paul Morgan
Okay. Great. And then, just lastly, can you add any color maybe about some of the lease-up assets? Maybe, for example, Burr Ridge in Chicago opened a year ago at 26% occupancy now, or Jacksonville, there are a couple of them that are probably less than maybe what you had pro forma'd, if that's correct, and maybe kind of some of the reasons.

Clint Malin
Sure. Absolutely. In Burr Ridge, that's a property we talked about on the previous earnings call, and that was a situation with Anthem where they had a change in leadership at the property level which had a delay in lease-up at that community. But they actually since have brought on a new Vice President of Sales and Marketing and have really put a tremendous effort behind focusing and honing in on that program to grow occupancy, so we're seeing some positive trending on Burr Ridge, although a little bit slower, but they are making progress on that one. So we feel confident in the resources that Anthem has dedicated to that project, as an example.

And in general, lease-ups can be a little lumpy. Over time, I think historically, as evidenced in our supplemental on Page 11, that our lease-up timeframe has been under 24 months, typically, at properties we have developed. So there are certain areas on that where it's been a little lumpy. We have made progress on the Jacksonville property, but there's also, the contrary side of that, there's some big swings also in positives, like at the Athens, Georgia, property where we've had tremendous lease-up activity at that, as well as Murrell's Inlet in South Carolina. We underwrite these for a 24-month lease-up period, and in some cases it can be a little lumpier than others, depending on the market.

Paul Morgan
Great. Thanks.

Clint Malin
Thank you.

Wendy Simpson
Thank you, Paul.

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

Michael Carroll
Thanks. Can you guys give us some more color on the mezz loan that's secured by the Genesis portfolio? What's the ultimate plan here? I thought the key part of this book was to create relationships. Is that what you're doing here?

Clint Malin
You are absolutely right. The key component of mezz financing was to utilize it as an additional tool to grow relationships. This was something we were not look actively looking at sourcing these types of investment opportunities. This was something that came to Doug Korey through relationships he has in the industry, and it was a unique opportunity that presented itself to us, and it was basically prepackaged to sell off this $12.5 million when the financing was originated. So this should be viewed as a unique opportunity that we looked at and decided to capitalize on.

Michael Carroll
Okay. And then, sorry if you mentioned this, did you say where you bought this loan from? Was it directly from that joint venture?

Clint Malin
No, it was a mezzanine loan that was financed—this piece was held by Mid-Cap, and we purchased it from them.

Michael Carroll
Okay. Great. And then I guess, Clint, can you really talk about your investment strategy going forward? I know that Wendy kind of highlighted the sale leaseback strategy should moderate, I guess, in 2017, but it seemed like the mezz book accelerated in the fourth quarter. Should we expect most of the investments in 2017 to be from this mezz book?

Clint Malin
No, not at all. As I mentioned, we did have, because of this unique opportunity for this $12.5 million mezz loan that presented itself in the fourth quarter, we were able to execute on that. But as I mentioned in my prepared remarks, we've approached the mezzanine financing program in a very deliberate way and pacing has been moderated. As this program matures, we will grow it out and evaluate the target, but it really has given us the opportunity to meet a number of operating companies in the industry that we haven't had access to.

And it really helps facilitate a dialogue with operating companies in being able to meet with them and talking about our experience in doing development financing, whether it's skilled nursing, assisted living, doing mezzanine financing, sale leaseback financing, so it continues to be our strategy and being a component of how we deploy capital, but we've been very disciplined and doing it at a measured pace.

Michael Carroll
Okay. Great. Thank you.

Clint Malin
Thank you.

Operator
Our next question comes from John Roberts with Hilliard Lyons. Please go ahead.

John Roberts
Good morning, Wendy.

Wendy Simpson
Hi, John.

John Roberts
We've heard a lot on labor around particularly skilled nursing and, Clint, your coverage ratio seems to have held up pretty well. Are your operators not getting that same pressure we're hearing from everybody else?

Clint Malin
It's something that our operators do talk about. That's something very cognizant on their radar screen, but they've been able to manage through changes in labor. And not to say what could happen going forward, but it's something that people are being very proactive about. They're trying to focus on reducing turnover cost and labor turnover to try to proactively manage that, so it's something that's definitely on the minds of our operating companies in our portfolio.

John Roberts
And have they given you any indication about the type of increases they're seeing or whether they're seeing difficulty in getting nurses, aides, etc.?

Clint Malin
I think it's always been challenging getting nurses. There's been talk, I mean, I don't have the specific percentage, but it's something that as the economy increases and inflationary pressures are out there, it's something that's definitely something to be focused on. And this is one of the reasons why we underwrite to a 1.5 times coverage, because we feel on the skilled nursing portfolio, there are ebbs and flows and we want to make sure we have adequate security in our investments. We think the 1.5 times coverage ratio on an underwriting basis provides for the ebbs and flows of the cash flow.

John Roberts
Super. Thanks a lot.

Wendy Simpson
Thanks, John.

Operator
Our next question comes from Karin Ford with MUFG Securities. Please go ahead.

Karin Ford
Hi, good morning. I just wanted to ask for a little more detail on the credit metrics for the Genesis loan. I think you said in the prepared remarks that the LTV was about 70%. Can you talk about what the fixed-charge coverage is on the total debt piece?

Clint Malin
The total debt piece is about 1.94 times on total debt, so we felt it to be very strong. Substantial equity had been invested in this portfolio, and occupancy was very strong, in the low 90% range. So it seemed to be a very strong covered investment, and that's what got our interest was the security of this investment. Again, it was a unique opportunity. It was well secured and something that we had an opportunity to invest in on an off-market basis.

Wendy Simpson
And an operator we know.

Clint Malin
Correct.

Karin Ford
Got it. Thanks for that color. Next, I just want to ask about potential investment and more investment in independent living. Are you looking at development funding, takeouts on new development, acquisitions? Are you hoping to align with a new operator? What's pricing in that space, and how do you think about new supply there?

Wendy Simpson
We haven't really gotten that far into it, Karin. We started hearing about the interest in independent living probably a couple of months ago. We generally, of course, were aware of independent living; it's not in our current wheelhouse, so we don't pay much attention to it. I don't believe that we're going to approach it like we did memory care, where we're going to look for a new company to incubate and that sort of thing.

I'd like to work with some of our current operators to see if we can add independent-living components to assets that they're currently working with. We would look at doing independent acquisitions if they come across our desk. We'll let people know we're looking at independent. So in terms of the metrics, I can't say I would quote anything that LTC would underwrite right at the minute, right at the moment, but I think it's an area that we might be very interested in looking at.

Karin Ford
That's helpful. And then, just last one for me, I know you said you're not interested in doing RIDEA at this point, but it does sound like you are willing to take more risk on with your lease structure and with the mezz debt program. How should shareholders view perhaps an increased risk return parameter versus what's historically been a fairly conservative strategy by you guys?

Wendy Simpson
The return risk isn't going to be increased, I don't believe. The mezz, if you look at mezz as a more risky investment, it's currently going to be capped at $50 million, and we'll reassess it when we get there, but we'll be underwriting at the same percentages. What we're adjusting for is if it's needed that we won't have specific increases in rent every year at a 2.5%, so it's not that the rent is any more risky, it's the

upside that might be a little more or a little less assured. However, the upside has an upside, where our 2.5% doesn't have an upside, other than the 2.5%. So I don't consider that LTC is going out on a limb, being risky.

Relative to the additional investments that we'd be willing to make in a triple net lease, as Clint said, we've always done that, but some people who don't have triple net leases or haven't worked with us before I think would like to see something written in the lease that says we are committed to doing something like that. So I don't think that increases our risk at all. I think it just makes it clear that LTC is investing alongside the operator for the buildings and the operations. And we're not going to put the money in for free. It will be at a return for the additional investment. So I really don't see us becoming a more risky company.

Karin Ford
Okay. Fair enough. Thanks.

Wendy Simpson
Thank you.

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

John Kim
Thanks. Good morning. Wendy, thank you for your commentary on the state of the industry and working more with your partners. I'm just trying to gauge how big of a change this will have on your current leases. Are you willing to restructure your leases or is this on basically lease negotiations going forward?

Wendy Simpson
We are not going to restructure our current leases. They all cover very well, so I think it would be more on leases going forward.

John Kim
And how should we think about CapEx? Because looking at your cash flow statements, what looks like maintenance CapEx was about $7 million last year, and I'm wondering how much you think this will increase going forward.

Pam Kessler
So that's not maintenance CapEx because we're getting a return on it. Compared to like commercial buildings or apartments that have recurring maintenance CapEx, we don't have that. Every CapEx dollar we put in gets a return on it.

John Kim
Okay.

Pam Kessler
So it would be the same going forward. Wendy's just—there's really not a change in strategy. It's just more than memorializing that in a document, in the lease document, versus negotiating it when the operator comes and asks if we want to participate in doing a renovation or an expansion.

John Kim
Okay. Can you comment on the lending environment for developments? We've seen in the multifamily space that the banks have become a lot more stringent, based on a lot of new supply coming into the market, and I'm wondering if you're seeing that also in the senior living space.

Clint Malin
Absolutely. We're definitely seeing that. As I have been working closely with Doug Korey on our mezzanine financing program, obviously we interact a lot with banks in regard to those discussions, and we're definitely seeing a pullback in the lending environment for construction projects. The percentages that are made available as far as loan to construction cost has gone down, so we're definitely seeing that. I think that's a positive for the industry to hopefully moderate some of the development that's taking place just as we go through the cycles. So we're seeing the same thing in the seniors' housing space.

John Kim
And is that an opportunity for you as well as far as providing more mezz debt or like higher rates on those loans?

Clint Malin
Absolutely. As options to seek construction financing become a little bit more limited, yes, I think it does. In discussions with operating companies, it gives us a seat at the table and allows us to be creative with them and flexible, so I think it does give us an opportunity to look at providing additional capital.

John Kim
Okay. Great. And then, finally, I was wondering if you had any discussions with Brookdale on a potential change of control of the company?

Wendy Simpson
We have not.

John Kim
Great. Thank you very much.

Wendy Simpson
Thank you.

Clint Malin
Thank you.

Operator
Again, if you have a question, please press star then one. Our next question comes from Chad Vanacore with Stifel. Please go ahead.

Chad Vanacore
Hey, good morning, all.

Wendy Simpson
Hi, Chad.

Chad Vanacore
All right. So, thinking about the acquisition pipeline, and you've given us pretty good details. Wendy, I think you said that the pipeline that you are evaluating is around $50 million and you would do up to maybe $50 million in the mezz debt book. Can you talk to the overall investment pipeline you have? What's the split of acquisitions versus development activity versus loan activity?

Clint Malin
Hi, Chad, good morning, it's Clint. Of the $50 million, I'd say 50% of that is skilled and 50% is AL, and about 50% represents development for that $50 million. And if you're talking about just a broader swath of what we are seeing in the market, I think deal flow has definitely come down. As I mentioned, there's a number of largest skilled nursing transactions we've seen, but more of what we've seen is just larger deals that just are not a strategic fit for our portfolio.

Chad Vanacore
All right. Thanks, Clint. And then, just probably one for Pam, the non-cash revenue in the quarter increased pretty substantially and it looks to be elevated in 1Q. What is that? What's driving that line item?

Pam Kessler
That was just the one-time lease incentives that we gave during the quarter related to extensions, modifications, and leased-up properties.

Chad Vanacore
All right. But you gave a pretty good guidance through 2017. You don't expect that to continue later in the year?

Pam Kessler
No.

Chad Vanacore
Okay. And then, just pulling back, thinking about the skilled nursing outlook, the industry is pressured, and you guys have said that right now you're kind of sidelined. What do you think appropriate cap rates are and where do you think your current portfolio lease coverage ends the year?

Clint Malin
I guess to start at the last item, regarding lease coverage, where it ends, we have looked at trending on our portfolio on more recent quarters, and we're trending still, as we mentioned last quarter, in the 1.5 times range in our skilled portfolio. But the one unknown as we go into fourth quarter and there are adjustments that operators push through in the financials, that would be the one caveat going into fourth quarter, that's typically the quarter in which you see adjustments happen. But barring any of those adjustments that are unexpected or large one-time adjustments, we continue to see that we're trending at a 1.5 times range for skilled nursing.

Chad Vanacore
All right. What about the underwriting as far as a cap rate that you can look at?

Clint Malin
You know, on the cap rate, we're probably in the 9% range on lease rates is where we have talked about. For the right opportunity to put something into an existing master lease, possibly a little bit below that, but that's where we're targeting right now for skilled nursing. On the private pay side, we did put an offer in on a portfolio of private pay properties earlier, towards the end of the quarter at a 7% rate, which we've

been told that the winning bid was a sub-7% rate, but we don't know where that will end up. So we're somewhere in that 7% to 7.5% on the private pay side.

Chad Vanacore
All right. That's good color. Thanks.

Clint Malin
Welcome. Thank you.

Wendy Simpson
Thank you.

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

Todd Stender
Hi. Good morning, thank you. If deal flow continues to remain slow and you're teeing up some dispositions on your non-core stuff, do you think that if we look out at 2017, you guys could be a net seller, just if the market continues to be slow and maybe your cost of capital isn't as low to make the spreads move?

Clint Malin
I don't see that happening. What we're looking at on the asset sale side is a moderated pace of selective assets. There are no large transactions we're looking at on selling assets, so I would not see us being a net seller.

Wendy Simpson
And in terms of deal flow, I remind everyone we sat at the same place this time last year with a very slow first quarter, not much in the pipeline, and we ended up doing $142 million of investments in 2016. So, I wouldn't read that much into the first-quarter sluggishness.

Clint Malin
That's right. I think after the transition of the Trump administration, there seems to be some type of understanding of where that's headed, where interest rates are headed. I think, then, people understand where the transaction market is and you'll hopefully see some deal flow following them.

Todd Stender
All right. That's helpful. Thank you. And then, how about just your appetite for partnering with pension fund capital? If they have different parameters and maybe you could make the numbers work, how do you feel about bringing in outside capital?

Wendy Simpson
We haven't been approached on doing that, so, as I said in the past, we're open to almost anything in terms of the structure, other than RIDEA, but we haven't been approached, Todd. I'd be more than happy to talk to anybody about an opportunity in that area.

Todd Stender
Great. Thank you, Wendy.

Wendy Simpson
Thank you.

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
I have no closing remarks, other than to thank you for your time, and we look forward to talking to you about our first quarter. Have a great day.

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