LTC Properties Inc.

First Quarter 2017 Analyst and Investor Conference Call and Webcast

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CORPORATE PARTICIPANTS

Wendy Simpson, *Chief Executive Officer and President*

Pam Kessler, *Chief Financial Officer*

Clint Malin, *Chief Investment Officer*

PRESENTATION

Operator
Good day and welcome to the LTC Properties First Quarter 2017 Analyst and Investor Conference 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. After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star, then 1 on a touchtone phone. To withdraw your question, please press star, then 2. Please note this event is being recorded.

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

Wendy Simpson
Thank you, Francesca, and good morning, everyone. I'm glad you could join us for LTC's 2017 First Quarter Investor Call. With me today are Pam Kessler, our CFO, and Clint Malin, our Chief Investment Officer. I'll begin with a few brief remarks and will then turn the call over to Pam for commentary on our financial results and then to Clint for a discussion of our pipeline and operator partner performance.

I'm pleased to report that LTC increased FFO by nearly 9 percent this quarter, our 26th consecutive quarter of normalized FFO growth. As we expected, there was no meaningful investment activity during the first quarter as we paused to deploy capital in an environment that was not particularly aligned with our measured and conservative investment strategy, a strategy that has served LTC well across many senior housing cycles and one that has allowed us to maintain some of the best coverage ratios in the industry.

With that said, I'm going to reaffirm our 2017 FFO guidance at $3.08 to $3.10, but unlike our view of the year as of our last call, this range now has very positive tailwinds. Clint will fill you in more specifics shortly.

Our balance sheet remains strong, with considerable flexibility that will allow LTC to act quickly when we identify new transactions that we believe add value to our portfolio and for our shareholders and help our operating partners achieve their business goals. It bears repeating that even if we do not close any deals in 2017, LTC would still be well positioned for sustained future growth.

I'll now turn the call over to Pam.

Pam Kessler
Thank you, Wendy. As Wendy noted, NAREIT FFO increased almost 9 percent from a year ago. On a diluted per share basis, FFO improved 2.6 percent to 78 cents on nearly 5 percent more weighted average diluted shares outstanding compared with last year. FFO expansion was driven primarily by top line growth of more than 10 percent, resulting from prior year investments, completed development, and capital improvement projects, as well as lease amendments in the latter part of 2016.

Revenue growth was partially offset by higher interest expense as a result of trimming out our line of credit in 2016 and 2017 as well as the effect of equity issuance under our ATM program and performance-based equity awards. That increased nearly 13 percent due to growth drivers previously mentioned as well as lower capitalized interest on development projects this quarter as compared to last year.

During the quarter, we invested almost $9 million in various development and capital improvement projects, received $11 million in principal payments on mortgage loan payoffs, and paid a 19 cents per share monthly common dividend. As I described on our last call, LTC took advantage of opportunities in the capital markets earlier this year, raising nearly $15 million in gross proceeds under our ATM program and $100 million through the sale of senior unsecured notes to a group of institutional investors in a private placement. We used the proceeds from these transactions to pay down our line of credit and fund capital improvement and development projects. We continue to have well-laddered long-term debt maturities matched to our projected free cash flow, and with no amounts currently outstanding under our line of credit, we don't have any significant debt maturities over the next five years.

Our considerable liquidity, which includes availability of more than $820 million, puts LTC in an advantageous position to execute its growth strategies and quickly and decisively seize opportunities as they arise. Our availability currently includes $600 million under our line of credit, almost $37 million under our shelf agreement with Prudential, and $185 million under our ATM program. We continue to strategically allocate capital where it makes the most sense for our portfolio, our partners, and our shareholders. Our capital deployment strategies have remained conservative in an effort to ensure profitable portfolio growth. We are not interested in growth just for growth's sake. LTC has long believed that closely aligning the maturities on our long-term debt with projected free cash flow is the best way to mitigate future refinancing risk. This strategy, combined with a conservatively leveraged balance sheet helps us maintain an investment grade credit profile.

At the end of the first quarter, our credit metrics compared favorably to the healthcare REIT industry average, with a debt-to-annualized normalized EBITDA of 3.9 times, a normalized annualized fixed-charge coverage ratio of 5 times, and a debt-to-enterprise value of 24.1 percent.

Now I'll turn the call over to Clint for a discussion of our pipeline and portfolio metrics.

Clint Malin

Thank you, Pam. Good morning, everyone. As Wendy noted, LTC's current pipeline is rather active and has grown to $125 million from $50 million at the time of our prior quarter's call. Approximately 70 percent of our pipeline is represented by private-pay assets. Additionally, 70 percent of the pipeline is represented by assets constructed within the last four years. Growth in our pipeline is exclusively from off-market transactions where we spend most of our time sourcing investment opportunities.

The pipeline consists of five transactions with three existing operating partners and the two other transactions with new operator relationships. These two transactions with new relationships began as discussions to provide mezzanine financing and have evolved into sale leaseback opportunities. Both of the transactions proposed with new operating partners will be structured as joint ventures for real estate ownership, LTC owning 90 percent and an affiliate of the lessee owning a 10 percent non-controlling subordinate minority interest. The real estate will be leased under long-term, triple net master leases to affiliates of LTC's limited partner invested in the real estate. LTC will have the opportunity to acquire 100 percent of the real estate over time, subject to the properties meeting predetermined financial metrics. You'll recall that last quarter Wendy talked about our ability and willingness to explore different types of lease and investment structures, and these two transactions are representative of this approach.

In building operator and partner relationships, we are looking at a variety of options to best meet the needs of our partners. The other three transactions in our pipeline, each consisting of a single property, are with existing operating partners to acquire newly constructed private-pay assisted living and memory care communities to be added to the respective master leases.

Outside of the unique market — off-market transactions, such as the deals in our current pipeline, the landscape has not changed substantially for us since our last call, and, although we are continuing to look at a number of deals, most have not met our investment hurdles. We are seeing continued moderation in sale leaseback flow, and the asking price for private-pay assets remains high. Given these dynamics, we remain focused on sourcing off-market deals and are comfortable taking the role of patient investor and maintaining clear and rigorous underwriting standards. As I mentioned last quarter, given the amount of capital currently chasing acquisitions and new development projects, we are more than okay taking a backseat until market conditions are better suited to a more aggressive investment strategy.

During 2017, we will continue to strategically evaluate our portfolio to identify opportunities to recycle capital on assets that are non-strategic and no longer core to our portfolio. We are currently evaluating a few properties for sale but are not prepared to provide any additional details today. However, it is possible a few sales could occur within the next few months.

Moving now to LTC's portfolio statistics, Q4 trailing 12-month EBITDARM and EBITDAR coverages on a same-store basis was 2.04 times and 1.51 times, respectively, for our skilled nursing portfolio, and 1.46 times and 1.24 times, respectively, for our assisted living portfolio. These metrics are stable compared with the prior quarter. I remind you that LTC's EBITDAR rent coverage is calculated using a management fee equal to 5 percent of revenues. We continue to believe that EBITDARM is a better metric of comparison to our peer group as different management fee percentages may be used to calculate EBITDAR by different companies.

Historically, we had a range-of-care property type classification, which included properties providing skilled nursing and any combination of assisted living, independent living, and/or memory care services. Since we only have seven properties that would have been included in this category and these properties derive materially all their revenues from skilled nursing services, we elected to reclassify them into the skilled nursing category beginning this quarter. Had these seven properties remained in the range-of-care classification, skilled nursing coverage for Q4 trailing 12-month EBITDARM and EBITDAR on a same-store basis, would have been 2.07 times and 1.53 times.

Now, I'll turn the call back to Wendy.

Wendy Simpson

Thank you, Clint and Pam. Senior housing supply has been a hot topic of conversation of late. With new supply continuing to enter the market and occupancy dipping, increased competition for the tenant wallet share is ongoing. Recent NIC data shows that in the first quarter of this year, senior housing occupancy dropped to the lowest levels since 2013, with assisted living occupancy moving to its lowest levels in seven years. That's not the whole story, however. While certain markets are struggling with supply and demand imbalances, other markets remain steady and attractive. At the recent NIC conference, audiences were reminded that no two markets are the same, and that, while natural trends — national trends provide important data, getting down to what's happening in regional and local markets is equally important, if not more important.

I should note that the diversity we've built into our portfolio helps soften the potential impact of any one community. I also believe that we have built a defensible position through the utilization of triple net leases, master leases, and strong coverage. With favorable long-term healthcare trends and the expected growing need for memory care communities, I feel good about our position.

Including the possible investments Clint mentioned, our committed capital for the remaining nine months of 2017 totals approximately $155 million. In addition to acquisitions, we are investing in developments, both SNF and private-pay, as well as major existing property additions and improvements. If we choose to finance these investments entirely on our bank line, at year end, we project that our debt-to-market capitalization would be around our self-imposed ceiling of 30 percent debt to 70 percent market cap. As we make investments and watch the markets during the year, we will be making decisions on managing our debt load and the maturities.

So in summary, while we are taking a bit of a cautious but slightly more rosy approach this year on investing, we remain open to and interested in deals that further solidify our investment and growth strategy, that is, reducing the average age of our portfolio, broadening our operator partner base, investing in developed assets, and maintaining a strong coverage ratio relative to our peers. As I mentioned earlier, even with taking a bit of a wait-and-see approach, our current commitments will begin providing FFO later this year and into next year, regardless of 2017 activity levels. And, as Pam said, our strong balance sheet and ability to flexibly structure deals for our partners, positions LTC well to take advantage of accretive opportunities as they arise.

LTC has more than a quarter century of experience in the senior housing market and has operated successfully across many market cycles. We are confident in our strategy and our ability to patiently invest in the right properties and communities at the right time, while maintaining highly focused on development — on developing mutually beneficial relationships with asset operators based on trust, transparency, and shared success. I look forward to keeping you updated on our progress.

Thank you for joining us today. We will now open the call to questions. Francesca?

QUESTIONS AND ANSWERS

Operator
We will now begin the question-and-answer session. To ask a question, you may press star, then 1 on your touchtone phone. If you are using a speakerphone, please pick up your handset before pressing the star keys. To withdraw your question, please press star, then 2.

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

Katie Holland
Hi, this is Katie on for Jordan. Good morning. And I just have a quick question about — could you provide some color on the deterioration of occupancy at the Jacksonville, Florida, asset that is currently in lease-up?

Clint Malin
Sure. This is Clint. Thank you for the question. On the Jacksonville property, we have seen — in that specific market there has been some newer entrants into that market, and that has impacted occupancy on that property specifically. We're working with the operator on that. They are bringing in some new — a new executive director into that community, and we're hopeful that that will show positive trends. It's just taking a little longer time than we had anticipated to stabilize that property, so we're not concerned at this point. It is taking a longer time than we've typically seen on our memory care properties, so it's something that we're aware of and we're focused on with our operating partner.

Katie Holland
Great. Thank you so much.

Clint Malin
Thank you.

Operator
The next question comes from Chad Vanacore of Stifel.

Chad Vanacore
Hi. Good morning, all.

Wendy Simpson
Good morning.

Clint Malin
Alright.

Chad Vanacore
So you've been pretty selective on the investment front, so I'm trying to think about what things would you need to see change in the market to meet your underwriting criteria as it stands today?

Clint Malin
Cap rates.

Chad Vanacore
All about price?

Clint Malin
A lot of the marketed transactions, you know, especially on the private-pay side right now, I've heard — I've listened to some of the calls of our peer group as well, in saying some of the consistent things that, you know, cap rates just have not adjusted on that, and that's why we're spending most of our time focused on off-market transactions and looking for unique opportunities that cap rates are not the sole determinant in what they're looking for in maximizing value.

Chad Vanacore
All right. So would you classify it as there's still plenty of capital chasing these assets, and you just haven't seen much of expansion in cap rates?

Clint Malin
Correct. There's still a lot of capital chasing investment opportunities.

Chad Vanacore
All right. And then my other question would be the EBITDAR coverage improved in the SNF portfolio. I thought it might be because you put range-of-care in there, but that seems to have — and, actually, been — had the opposite reaction.

Clint Malin
There was actually, ironically, to our detriment.

Chad Vanacore
Right. So what drove the improvement in SNF coverage and occupancy, actually, given that we've seen headwinds in the industry? So what's driving — I guess the main thing is what's driving that occupancy gain?

Clint Malin
It's being driven by a number of different operators. We had seen in the past, a couple of challenges in certain states with our operators, and, you know, it was refocusing by the operators in our portfolio, you know, putting in different leadership at different properties, and just different efforts to focus by the operators, so it's what we — we had a couple — a little bit of a dip, probably six to nine months ago, and that's been stabilized. So it's something that we've expected and we've been monitoring this the last few months, and we do think that 1.5 times range in our SNF portfolio is a very sustainable number at this point in time.

Chad Vanacore
All right. Thanks for taking the question.

Clint Malin
Thank you.

Wendy Simpson
Thank you, Chad.

Operator
The next question comes from Michael Carroll of RBC. Please go ahead.

Michael Carroll
Yeah, thanks. Clint, kind of off of Chad's first question, what actually changed, I guess, in the investment market today that's allowed you to increase your investment pipeline pretty significantly compared to the last period?

Clint Malin
Off-market transactions. As I mentioned in my prepared comments, we are working with these two companies, looking at doing some type of preferred equity or mezzanine financing and just the needs for these organizations, as we got into it, more communication, more discussion with them about what they wanted to accomplish, you know, sale leasebacks ended up being an evolution through that discussion. And this is what we wanted to target by bringing Doug Korey on and joining our organization, is, you know, introductions to companies that we otherwise would probably not have an introduction to, that have typically not utilized sale leaseback financing, but, you know, entering a discussion with them through a product that they're familiar with allows us to open up a dialogue to find out what their true financing needs are and how we could partner with them. So that's how we're sourcing off-market transactions.

Wendy Simpson
What's happening in these two particular instances, I believe, is that the operator is not looking to get the equity out, and so they're — there's a lot of equity money in the market right now, but if the operator wants to do a deal to get some debt and a little bit of equity, there's often a gap there in terms of how much they can get secured debt these days. It's not 80 percent, it's going down on the secured debt, and as an operator looks at possibly doing a deal for the next five years, or however long they can get a debt, they can often understand the benefit of doing a sale leaseback and still keep all of their equity in the operating company. So we're seeing opportunities just because that's the way an operator is looking at his business at this point. And as we — as Clint pointed out, we've been able to work with a couple of operators and say, "If you want to continue a small amount of equity interest in the property, we can structure some sort of joint venture that allows that," and so they're really only paying rent on 90 percent of the value of the property. So it's a lot of different things that have happened. Yes, there's a lot of capital out there, but it's not necessarily debt capital.

Michael Carroll
Okay, and then, I guess, you guys said earlier that it's — the big thing that's keeping you on the sidelines right now is this price. Can you remind us where your target cap rates are and where the market is, and how much higher does the market need to kind of go to hit your range and where you'd be more active?

Clint Malin
Sure. On the assisted living side, private-pay, we're looking at anywhere from 7 to 8 percent, depending if the buildings are stabilized, or if it is a property that we're buying that's newly constructed, at certificate of occupancy, that's sort of the range. Skilled nursing, we're in a 9 percent range on skilled, and we can look at skilled transactions. I think there's opportunities that could fit in the 9 percent. The question for us on skilled, it's really finding the right operating partner to work with, and we're looking for newer assets and in markets where the operators have some type of presence and scale that gives them the ability to negotiate with managed care companies, health systems, as we have this whole evolution of value-based reimbursement.

On the private-pay side, you know, where market NOI cap rates are, at times are equal to or less than our lease rate cap rates, and that provides effectively no coverage for our operators in a triple net lease.

Michael Carroll
Okay, and then, I guess, one final question maybe for Pam on the modeling side. There's that memory care asset that was stabilized in Colorado that didn't achieve the occupancy targets. I guess, can you remember — remind us where occupancy is right now, and how does that hit your model? Because if I remember correctly, rent kind of ramps up as occupancy picks up, so is that full rental rates currently being impacted at that facility, or is it still kind of based on where occupancy is?

Pam Kessler
No, it's full rental rate at — once it reaches two years, 24 months is our defined stabilization, regardless of occupancy, so it's full rent, but it's currently at 66 percent occupancy.

Michael Carroll
And, I guess, is that in a massed re-lease? I guess, how is that operator —

Wendy Simpson
Yeah, it —

Michael Carroll
— currently paying that?

Clint Malin
Yeah, it's in a massed release, and that's a property where we've been in close conversation with our operating partner on this property, specifically, and there has been a couple of new buildings that have been built in that market, but it's a situation where the management team felt that the executive director at this community became complacent and wasn't really out marketing and pushing new admissions into the community, because for a while they had — they were the only — they were the new building on the block, and so they've recently replaced the executive director, and this is a building with Anthem Memory Care, and they have three other communities in the Denver market, so they've got a strong presence in the market, and I think it's really just changing the leadership at the local community to be able to continue to grow occupancy on that. So it's something we're aware of, but right now, I think with the change in the executive director and the market presence that Anthem has in the Denver Metro Area, that it's taking a little bit longer for this building to stabilize, but at this point, we're not concerned about the long-term stability of this asset.

Michael Carroll
Great. Thank you.

Wendy Simpson
Thank you.

Clint Malin
Thank you.

Operator
The next question comes from Karin Ford of MUFG Securities.

Karin Ford
Hi, good morning. Clint, I wanted to ask you about in your pipeline, I didn't hear any mention of behavioral health, mezzanine loans, new development, you know, things that — asset classes and types that you've — and structures that you've looked at in the past. Could you just comment on your appetite for those today?

Clint Malin
Sure. On behavioral health, we just haven't seen as many opportunities to look at it, and it's something we're still trying to evaluate and understand, especially with potential changes that could take effect in Obamacare. We're evaluating and seeing where that's at, so we just haven't seen the opportunities to move forward further in behavioral health.

As it relates to development, we're not seeing as much development from our existing operating partners, and I think that's a function of cost of land. Labor and materials have gone up, and our operators are not seeing the opportunities that they had before on development, and when it comes to development, we're really focused on relation — on develop with our existing partners, and we're not at this point, outsourcing new relationships to do development, other than if it happened to be an opportunity for a sale leaseback transaction to bring in some stabilized assets and then look at adding development onto that. So since we're sourcing that development through our existing relationships and pricing has gone up, you know, that has abated right now on development.

Karin Ford
Are you guys still looking to do on mezzanine loans as well?

Clint Malin
Absolutely. Absolutely looking at doing mezzanine loans, but as an example, you know, Doug was spending his time on a number of opportunities, the two I talked about, specifically, which initially was about mezzanine financing that has evolved into, say, a leaseback transaction, so we're being methodical and strategic about how we deploy capital for mezzanine, but where we can find opportunities to redirect mezzanine discussions into sale leaseback opportunities, we'll go with that and march forward to try to convert those opportunities.

Karin Ford
Thanks for that. My next question is on the portfolio of lease to Sunrise. If my memory serves correctly, you have an expiration there coming up in 2018. Can you just remind us what percentage of your revenues that lease comprises and what the coverage is and what your current thoughts are on that expiration?

Clint Malin
Well, I'll let Pam talk about what the parentage —

Pam Kessler
About 3 percent now.

Clint Malin
Okay, about 3 percent. We're actively engaged in — you know, we have 12 months remaining on that lease, and we're actively engaged in evaluating that. We've met with and had conversations with Sunrise relating to this.

Pam Kessler
We have an independent consultant go out and look at our financials from Sunrise, somebody who knows the industry well, and it has given us an analysis, which we are looking at, to determine where we might price these assets coming forward. So we're on top of it.

Karin Ford
Does it still have coverage below one-oh times?

Pam Kessler
After a 5 percent management fee, yes.

Karin Ford
Okay. Thanks. And then my last question is just on — there's been some M&A in the healthcare space. Can you just give us your thoughts on consolidation, your current size, and what your thoughts are on what's been going on, particularly in the SNF sector?

Wendy Simpson
I enjoy our strategy, our balance sheet, our confidence in what we can add to our shareholder value as time goes on, so the size of our company is not as important to me in terms of what earning potential we have, and I think we have a great earning potential this year and in the future. We have not seriously discussed any mergers or consolidation of our company. I think the one that was announced the other day has many reasons why it makes sense for those two companies to merge. They wouldn't have made sense for LTC. Every time there's a merger, I think it's just like every time we do a transaction, it's the unique set of circumstances that makes that thing happen. And so I think it's a unique set of circumstances that is at work for that current merger.

Karin Ford
Thanks for your thoughts.

Wendy Simpson
You're welcome.

Operator
The next question comes from Rich Anderson of Mizuho Securities.

Rich Anderson
You guys are just too darn unique. So the — I just want to understand a little bit about the potential need for equity to right size your leverage ratios. You said $155 million of committed capital. Did you say that plus the — or, first of all, Clint, your five opportunities, does that equate to $125 million?

Clint Malin
Yes.

Rich Anderson
Okay. So its $125 [million] plus the $155 [million] is — you know, some

Wendy Simpson
No.

Rich Anderson
All right, $155 [million] is the total?

Wendy Simpson
Yes.

Clint Malin
And the $155 was for the nine months remaining in 2017.

Wendy Simpson
Yes.

Rich Anderson
Okay, so the total number is $155 [million]. Should you get up to that point and use only debt, that's when you start to think about it?

Wendy Simpson
Correct.

Rich Anderson
Okay. So I guess the question is how do we time that? You know, you guys have the fortune of trading at a premium 10AV , you have a topsy-turvy political landscape, I mean, if you feel — at what point when you — do your feel like you have to start to think about — even if it hasn't happened yet? Is it a — are you in front of it by six months, or can you — you could even be more precisely times — or can it be more precisely timed as it relates to kind of addressing your leverage levels?

Pam Kessler
Well, that's the beauty, Rich — this is Pam — of setting such low leverage targets as that. It allows you to be opportunistic, and so we'll precisely time it. We won't feel any pressure once we reach that hurdle to do something, so, no. Stay tuned.

Rich Anderson
All right. So you kind of get there and then think of it, or is that the way to look at it, or as you're approaching, you start thinking about it?

Pam Kessler
I think it's all of that. I think if you look over the past three years at how we've timed the market, it's been opportunistic, and we don't get up to a target and feel pressured to do something.

Rich Anderson
Gotcha.

Pam Kessler
We've set low targets so that if we go over it a bit, because the market's just not there, we still are one of the lowest levered companies in the healthcare industry, so if we reach that target, there's — we're not going to have beads of sweat on our foreheads.

Rich Anderson
Okay. I appreciate it. That makes sense. And then, Wendy, you gave your guidance — I'm just curious if that already assumes all the activity that Clint mentioned, or would there be upside to your range assuming these deals do close?

Wendy Simpson
There's definitely upside. That includes nothing — no transactions this year at all. It's just our —

Clint Malin
Current equipment.

Wendy Simpson
— our current companies and our current commitments.

Pam Kessler
Yeah, it's not — it's none of Clint's $125 [million] pipeline.

Rich Anderson
Okay.

Pam Kessler
It's not that we don't have confidence in him, but —

Rich Anderson
I mean, maybe you could just speak in terms of history, when you've done $100 million of deals in the past, how accretive that has been for LTC, not to necessarily comment on these, but just to get a sense of how accretive your external growth pipeline has been in the past.

Wendy Simpson
Clint, without specifying, would you say of the amount that you're talking about, of the deals, how much do you think could close in the second quarter, third quarter? And I'd say if you use an average of a 7 percent yield —

Pam Kessler
Yeah. Yeah.

Wendy Simpson
— on this whole group of assets.

Rich Anderson
Okay.

Clint Malin
I can tell you, we thought 50/50. Fifty percent in the second quarter, 50 percent third quarter.

Wendy Simpson
Okay.

Rich Anderson
Okay. And you said a 7 percent yield?

Wendy Simpson
Yeah, an average of a 7 percent yield, and it's with, you know, putting it on our line at a 2 percent cost, or how much is our line?

Pam Kessler
Yeah, 2 percent cost.

Wendy Simpson
At a 2 percent cost.

Rich Anderson
Okay. Great color. Thanks very much.

Wendy Simpson
Thank you, Rich.

Operator
The next question comes from John Kim of BMO Capital Markets.

John Kim
Thanks. Good morning. Just a couple of follow-ups. On your existing acquisition pipeline, is there any carryover from last quarter, the $50 million that you had back in February?

Clint Malin
Yeah, I can tell you there is. There is carryover, yes.

John Kim
How much of the $50 [million] would carry over?

Clint Malin
I would say of the carryover, we have about $40 million. Those projects are newly constructed, that are currently under construction. One just recently completed construction in January, and the others are currently under construction, so it's that sort of time that we would be a takeout at certificate of occupancy on that approximately $40 million.

John Kim
Got it. Okay. You talked about acquisition cap rates that you're underwriting at 7 to 8 percent versus the living 9 percent for SNFs, but can you also tell us about coverage levels as far as [indiscernible]?

Clint Malin
[Indiscernible] — well, 1.5 times coverage on skilled after a 5 percent management fee, and 1. — and that's unstabilized — and 1.2 times stabilized for private-pay assets.

John Kim
Okay. Pretty much where you're at today.

Clint Malin
Correct.

John Kim
On the Sabra Care capital merger yesterday, I think increased scale, improved cost of capital, and diversification of assets were cited as a few reasons for them moving forward. It doesn't sound like you're really concerned that much about scale or cost of capital, but what about diversification as far as tenant diversification or asset type?

Wendy Simpson
Well, as Clint said, I think of our activity, two are with current operators, and —

Clint Malin
Three with current —

Wendy Simpson
Three with current operations and two with new operators, so those new operators will further dilute our top three or five, and the ones that we're doing with current operators, are not significant in our top three. So it is diluting our exposure to our top operators, and we're bringing new operators in and diversifying types of assets. We're still going to be very nicely diversified between private-pay and skilled nursing. We continue to look at behavioral, but it's not as important to us right at the moment. I think we're very happy with our asset allocation and our operator allocation.

John Kim
Do you have any internal goals and timeline as far as getting any particular tenant below 10 percent or your top five below 50? Any internal goals that you could share with us?

Wendy Simpson
No.

Pam Kessler
No, not — we don't have set goals. I mean, we've said broadly that we would like to see no one operator be over 10 percent of our revenue, but we're not going to do a transaction just to get there. We believe that will evolve naturally over time and with us sourcing new operator relationships, I think we'll get there.

Wendy Simpson
But conversely, if one of our top operators, say Preferred, came to us and said — or Prestige came to us and said, "We have another $150 million transaction we'd like to do with you," our strategy, our conservative strategy would — it would be difficult for us, even though we love the operator, and we think that they're probably one of the best operators in the industry, to do that transaction, so, conversely, you're probably not going to see us plowing a lot of money into one of our top three to five operators.

John Kim
Okay, and then, Wendy, last quarter you discussed some of your operators having discussions with you requesting more flexible lease terms, and I'm wondering what your updated views are on this, particularly since the last call.

Wendy Simpson
Well, as Clint said, that — you know, we're offering these two transactions that the operating company can maintain an ownership interest in the assets. We are still not offering sale options at leases, though we've talked to some people about including the possibility of a purchase option. We have talked about doing leases with CPI. We haven't done that yet, but we're still open to transactions that are different than transactions that we've done in the past as long as it protects LTC's long-term and current interests.

John Kim
Anything on the capex front?

Wendy Simpson
Capex front? No, nothing new on capex. It's pretty well detailed in our — oh, you mean are we going to add any capex? We haven't talked to anybody recently that needs capex that wouldn't be revenue enhancing, so, no. If — as Karin asked about the Sunrise assets, if we — as we get to releasing them, there may be some capex that needs to be deployed, but we haven't evaluated that right at the moment.

John Kim
Okay. Great. Thank you.

Wendy Simpson
Thank you.

Operator
As a reminder, if you have a question, please press star, then 1. This concludes our question-and-answer session. I would like to turn the conference back over to Wendy Simpson for any closing remarks.

CONCLUSION

Wendy Simpson
Thank you, Francesca. Thank you again for joining us, and we'll talk to you next quarter. Thanks very much. Have a great day.

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