LTC Properties

Third Quarter 2017 Analyst and Investor Call

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CORPORATE PARTICIPANTS

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Pam Kessler – *Chief Financial Officer*

Clint Malin – *Chief Investment Officer*

PRESENTATION

Operator
Good day, and welcome to the LTC Properties 3Q17 Analyst and Investor Call. All participants will be in a 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 its 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, operator, and hello everybody. Welcome to LTC's 2017 third quarter investor call. Joining me today are Pam Kessler, our CFO; and Clint Malin, our Chief Investment Officer. I'll begin with a few remarks, including an update on Anthem and guidance, and then Pam will discuss our financial results. Following Pam, Clint will provide more in-depth commentary on our investment activity, pipeline and operator partner performance. I'll come back with a quick summary before the question-and-answer portion of the call begins.

For our industry, the third quarter narrative seems to be dominated by challenged operator performance. While we also face some challenges, we remain highly focused on driving long-term value for partners and shareholders through a culture of trust, transparency, and shared success. We are more confident now than ever in our strategy of partnering with regional operators. They are more nimble and best able to successfully manage local portfolios. While we will continue to evaluate myriad opportunities, our commitment to working with strong regional operators both current and future to meet their needs by offering creative solutions and financing structures to help them grow remains steadfast. I'd like to recognize our operating partners' outstanding efforts during the recent hurricanes. Successful and intensive preplanning and preparedness allowed them to keep all residents safe and secure. Operating seniors housing communities during a widespread emergency takes considerable amount of complex coordination, and we couldn't be prouder of the way our partners handled themselves, continuing to provide residents with round the clock care. Bar none, these operators went above and beyond, working during a significant time of need. In fact, we were told by several partners that selfless employees left their own homes, some of which were in jeopardy, to care for residents. I'm happy to report only minimal damage to our portfolio and that all but one property has since been reoccupied. Given our presence in the communities hit hardest by the storms, primarily in Texas, and in recognition of all of our partners who provided extraordinary care during Hurricanes Harvey and Irma, we made charitable contributions to foundations set up by our operating partners to assist their employees adversely affected by the storms. Thank you to everyone who is playing a part in the recovery efforts.

Moving to our pipeline. We are a bit more optimistic than we have been over the last several quarters. Activity has picked up nicely. We are currently sourcing some attractive off-market deals that are a good strategic fit for LTC and that meet our stringent underwriting standards.

Clint will provide more details later, but I will say that the pipeline is very diverse with respect to deal structure, operator, and geography. And we are in a good position to act on some if not all of these potential deals before year end. As expected, there are no significant investments in the third quarter, although we did complete an acquisition subsequent to the end of September. You'll hear more about this later. I'd now like to provide an update on our Anthem portfolio. First and foremost, the properties are making good progress. The community-level staffing challenges we told you about have abated. Corporate overhead is being reduced. And occupancy at the three communities we detailed on our last call, Tinley Park, Burr Ridge, and Westminster, continues to improve. At October 31st, occupancy at Tinley Park was 42%, Burr Ridge was 64%, and Westminster was 97%, up from 29%, 47%, and 88% respectively during the month of July. Regarding the two Kansas communities we previously discussed, we are negotiating the transition of both from Anthem to another existing operating partner where we will be adding to an existed master lease. We hope to complete our negotiations by the end of November and with the process of securing licensure, we expect to complete the transition in January or February 2018.

Of the properties currently under development with Anthem, we expect the Glenview, Illinois memory care community to open by early December. Construction of the 66-unit property is substantially complete and Anthem is moving toward licensure, inspection, and preleasing. The other construction project located in Oak Lawn, Illinois, is expected to open early in the second quarter of 2018. We recently signed a forbearance agreement with Anthem under which we have agreed not to pursue enforcement related to their defaults through the end of this year with the stipulation that Anthem, among other conditions, pay minimum rent of $400,000 per month through December 31, 2017. This was slightly higher than the $1 million per quarter we estimated earlier. Given the progress Anthem has made and after reviewing a variety of options for the portfolio, we have decided to continue with Anthem as our operating partner for now as we continue to monitor and assess their operational improvements, corporate overhead reduction, and ability to bring the two new development projects online in a timely and successful manner. We still need a few more months of operating history for Anthem before we can provide a cogent forecast for 2018 rent from them. But as I mentioned, in the few months since their default Anthem has made good progress.

Finishing off with guidance, we are slightly increasing our 2017 forecast. Assuming no additional investment activity, financing, or equity issuances for the remainder of the year, we are forecasting FFO between $3.07 and $3.09 per share for 2017. We plan to provide 2018 guidance during our fourth quarter conference call.

Now, I will turn things over to Pam. I'll return after she and Clint complete their remarks. Pam?

Pamela Kessler

Thank you, Wendy. NAREIT FFO at $0.76 per diluted share was the same as in last year's third quarter. There were three primary factors that impacted our results. First, rental revenue was reduced related to Anthem and properties we sold during past 12 months. Additionally, mortgage interest income decline related to loans that were paid off. These were partially offset by increases in revenue from acquisitions, development, and capital improvement. Second, interest and other income increased $1.2 million; $425,000 of this increase resulted from investments in mezzanine loans. The remaining $842,000 resulted from a write-off of an earnout liability and related lease incentive that we no longer anticipate paying. The write-off was due to a strategic change in operations at the property whereby the operator converted memory care units to assisted living units to better meet market demand. After a review of the revised pro forma, we determined that it was unlikely that the operating metrics required to trigger the earnout payment will be met within the timeframe required by the agreement. Third, interest expense increase related to the sale of senior unsecured notes in the latter half of 2016 and the beginning of 2017.

Investments in the third quarter included $6.4 million for development and capital improvement projects. We borrowed $10 million under our line of credit, repaid $15 million of senior unsecured notes and funded our $0.19 per share monthly common dividend. Subsequent to September 30th, we borrowed $15 million under our line of credit for the acquisition of a newly constructed assisted living and memory care community for $16.6 million. Clint will provide the details shortly. In keeping with our philosophy of maintaining a strong and flexible balance sheet, our long-term debt maturities remain sensibly spaced and matched to our projected free cash flow, which helps to moderate future refinancing risk. There are no major debt maturities over the next five years and we maintain significant liquidity not only to meet our obligations but to fund future growth. Currently, $530 million of availability remains under our line of credit, $52 million under our shelf agreement with Prudential, and $185 million under our ATM program, giving us total availability of $767 million. We will continue allocating capital strategically and conservatively to provide maximum value for our portfolio, partners, and shareholders and to help ensure profitable long-term growth.

At the end of the third quarter, our credit metrics continue to compare well to the healthcare REIT industry average with debt-to-annualized normalized EBITDA of 4.2 times and normalized annualized fixed charge coverage ratio of 4.8 times and a debt-to-enterprise value of 25.6%.

I will now turn the call over to Clint, who will discuss our investment activity, pipeline, and portfolio metrics. Clint?

Clint Malin
Thank you, Pam. The acquisition we completed subsequent to the end of the third quarter was for a 73-unit newly-built assisted living memory care community in Kansas City, Missouri, enhancing our growing relationship with Oxford Senior Living, which now operates the three communities owned by LTC. In total, Oxford operates 14 communities in Kansas, Missouri, Oklahoma, and Texas. As Wendy mentioned, our focus remains on strong regional operators and Oxford's regional presence is a great example. The deal has an initial cash yield of 7% and the community was added to an existing master lease. With the completion of this investment, we have invested $71 million year-to-date in acquisitions, all new or private pay assets. These investments continue our stated strategy of investing in newer, modernized properties to reduce the average age of our portfolio. On last quarter's call, we discussed our Jacksonville and Louisville communities and their transition to Thrive Senior Living. Since that time, both communities have received licensure and have been added to Thrive's master lease. At October 31st, occupancy at Louisville was 77% compared with 75% at June 30th, while occupancy at Jacksonville slipped slightly at October 31st to 58% down four percentage points from June 30th. Lease-up at the Westchester community, which opened on June 23rd is operated by Thrive and was acquired by us last quarter. It is going well with occupancy at 48% as of October 31st.

We have engaged investment bankers to actively market our Sunrise portfolio, a group of six seniors housing communities, for sale or re-leasing to a new operator or a combination of both. Sunrise has informed us they do not intend to renew the master lease upon expiration at the end of April 2018. The properties comprise 320 assisted living and memory care units mainly in premier submarkets in Ohio with one property in Pennsylvania. The properties are well occupied, but are not currently operating at maximum efficiency, creating an opportunity for significant NOI improvement. We are seeing a diverse group of interested parties across a number of potential deals structures. Of note, should we sell the portfolio outright, we would recognize a meaningful gain on the sale. We are working with our advisors to evaluate the deal that is in the best interest of our shareholders and expect to finalize a transaction on or before the lease expiration date. I look forward to providing an update on our next quarterly call as to the status of this process.

Additionally, we continue to evaluate our portfolio to identify additional opportunities to recycle capital on assets that are no longer core or strategic. As Wendy mentioned, our current pipeline has expanded. As owners and operators of seniors housing are working through recent challenges and making decisions about their portfolios, more attractive deals are coming to market. Our low cost of capital and strong balance sheet makes LTC very competitive in the marketplace for new investments and permits us to move quickly on new opportunities. The approximate size of our pipeline is $100 million, and it includes five transactions. They span a variety of deal types, including acquisitions, development projects, real-estate joint ventures, and loans as well as four new regional operating partners in four states. The majority of the pipeline consists of private pay opportunities but also includes two skilled nursing transactions, one of which would provide financing for the construction of a replacement property. Of the private pay transactions in the pipeline, one is a joint venture partnership with a developer and a regional operating company for the development of an assisted living memory care and independent living community outside of Milwaukee that I had mentioned on our last call. The joint venture will own the real estate improvements and triple net lease the property to affiliates of our joint venture real estate partners to operate the community upon opening. We expect this transaction to close in the fourth quarter.

Another is for the development of an assisted living memory care community in the Pacific Northwest. This off-market transaction will be structured as a construction loan and will grant LTC a purchase option to acquire a 90% interest in the entity owning the real estate and improvements 12 months after completion of construction, resulting in a joint venture partnership with the operator. An affiliate of the operator will concurrently enter into a triple net lease with the real estate joint venture to operate the property. We are actively engaged in due diligence for this off-market transaction. The third is an off-market transaction to acquire a 90% interest and the real estate and improvements comprising an existing assisted living and memory care community in a joint venture partnership with the existing operator who will then lease the property back via a triple net lease. We are actively engaged in due diligence. The remaining two deals in the pipeline are also off-market transactions. Although we are not generally known for pursuing larger transactions, we have seen one unique larger opportunity that appears to have a more realistic price point, but it is not included in the pipeline I just described. We are in the early stages of evaluating this deal. It is interesting because the deal includes newer properties and with a well laid out geographic presence and a premier regional operator.

I will finish up with our portfolio statistics, which are reported one quarter in arrears. Q2 trailing 12 months EBITDARM and EBITDAR coverage on a same-store basis was 1.93 times and 1.41 time respectively for our skilled nursing portfolio and 1.43 times and 1.22 times respectively for our assisted living portfolio. While our assisted living portfolio coverage is relatively stable on a same-store basis to recent quarters, our skilled nursing portfolio coverage declined six basis points. The decline in coverage is primarily attributable to two operators. The first, accounting for two thirds of the decrease, stems primarily from occupancy declines and increased expense spending, which the operator expects to recoup in future periods through higher Medicaid rates. The decline in occupancy related to a reduction in volume of post-acute services for rehab patients covered by Managed Care insurers. In response to this pressure, our operating partner has been proactively focused on implementing specialty programs to provide services to higher acuity patients such as respiratory units for trachs and vents. The second portfolio experienced the opposite. While occupancy and revenues increased slightly, cost containment has been a key challenge and one building in the portfolio is experiencing pressure from newer buildings opening in this marketplace. We are working closely with both operating partners and staying apprised of the changes being implemented to improve performance. As a quick reminder, our EBITDAR rent coverage is calculated using a management fee equal to 5% of revenues. We continue to believe that EBITDARM is a better metric of comparison to our peer group as different management fee percentages maybe used to calculate EBITDAR by different companies.

Now, I will turn the call back to Wendy.

Wendy Simpson
Thank you, Pam and Clint. The recent NIC Conference in Chicago highlighted what many of us in the seniors housing industry are living day-to-day. Some have a positive outlook given strong long-term demographics while others remain on the sidelines. We at LTC completely agree that underlying trends remain very favorable. But as our pipeline and Clint's comments reflect, we are now seeing more opportunity to make solid investments that will drive additional long-term profitable growth. LTC was fortunate to host former Kansas Governor and current AHCA President and CEO Mark Parkinson at a recent board meeting for a frank state of the union discussion regarding the politics surrounding healthcare and seniors housing. Mark told us that AHCA is currently focused on lobbying efforts seeking increased funding for SNF Medicaid rates to providers in Texas, which has one of the most fractured state healthcare associations in the country. LTC is supporting these important efforts. Our remaining committed capital to date in 2017 totals approximately $52 million, which includes development, renovation, and expansions. As I’ve always said, regardless of investment activity for the remainder of the year, our current portfolio will generate FFO this year and next, and I remain optimistic about our future opportunities. As a firm that is well capitalized, we are able to quickly take action when opportunities for additional value creation arises and that is exactly what we are doing.

Thank you for joining us today. We would now be happy to take your questions.

QUESTIONS AND ANSWERS

Operator
Thank you. We will now beginning 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. The first question will come from Jordan Sadler with Keybanc Capital Markets. Please go ahead.

Jordan Sadler
Thank you and good morning. I wanted to see if we could get maybe a little bit more color surrounding Anthem outside of the two Kansas properties. You did mention that they’ve made some progress. Maybe you could just outline incrementally some of that progress and some of the things that are giving you confidence?

Wendy Simpson
Well they have taken the steps to reduce their overhead as we counseled them to do. They have made the changes in their executive teams at the facilities that were having more difficulty leasing up. And we are seeing that they're getting back on track to their underwritten performance. They're probably a few months behind, but they are leasing up and they are, I think that they are back on track. I won't be confident of the turnaround until we see the two new properties opening up and not having a stumble relative to their lease-up. They are currently not doing any other properties, they are not in due diligence on anything else, they are not looking to build anything else. Their total focus is on operating the properties that they have in their portfolio and stabilizing everything so that they'll have a really good base to go forward. We did talk to other operators about the assets. We have confidence that we would be able to replace Anthem should we need to do that. But at this point I think it's best for everybody concerned and most assuredly our shareholders that we maintain our relationship with Anthem and give them the support that they need.

Jordan Sadler
Okay. When you speak to these other operators and maybe also relative to the two properties that are currently being negotiated, to be transferred, the expectation in terms of where the rent is versus market is that -- are you comfortable that that's an achievable level still?

Wendy Simpson
Yes.

Jordan Sadler
Okay, that's helpful. Thank you. Maybe one for Clint on the pipeline. It seems, obviously there is been a big pick up. I'm curious, what's driven sort of the, I don't know if it was the NIC conference or otherwise, but it seems like there's been a spike in activity relative to what we talked about a few months ago, and I'm curious what all is driving it and where pricing is?

Clint Malin
Sure. Well, a lot of this is, as mentioned, is off-market transactions and when it comes to off-market transaction sometimes it takes a while to get those cultivated and put together. Some of these are development projects, so that further takes time to go and put together. Its things that we been spending a lot of time and working on, and it's just taken time to come to fruition.

Jordan Sadler
And the pricing?

Clint Malin
Ah, the pricing I guess should be 7.5 plus or minus.

Jordan Sadler
On the 100.

Clint Malin
Correct.

Jordan Sadler
Okay. And the larger opportunity that you're looking at, even though it's in the early stages, did you mention a property type?

Clint Malin
We haven't at this point. It's just something that we wanted to make you aware that, we do see a lot of marketed transactions and typically, given pricing, we will pass on them or if they are large deals that may have a lot of older properties, we will typically pass on that, but this happened to be one that was interesting and unique, we don't know exactly where it will go but it's something that peaked our interest.

Jordan Sadler
And you said they're newer properties, so it's probably pretty safe to assume they're not skilled nursing facilities.

Clint Malin
They are newer properties.

Jordan Sadler
Okay. And then lastly just curious if there is any update in terms of your Genesis loan and exposure? I know that they reported this morning and they've got some news on the tape and in terms of looking for some concessions in terms of their overall fixed charges. Anything to report there?

Clint Malin
Nothing to report on our side. I mean, there's been a little bit of drop in coverage, but from the investment we made, on the mezz basis, it's well covered. There's a lot of equity in front of us. We continue to monitor that. But at this point, given how we restructured and the security behind that, we don't have any concerns on that right now.

Jordan Sadler
Okay. Thank you.

Clint Malin
Thank you.

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

Chad Vanacore
Hi there. Just thinking about the Anthem portfolio stabilization again. It seems we have these lease-up properties that have actually improved quarter-over-quarter. What was the lease-up progress post quarter?

Clint Malin
Post quarter, meaning in October?

Chad Vanacore
Yes. We're about half way through the quarter now, getting close it. Have they maintained those gains and organic from these levels.

Clint Malin
Absolutely, yes.

Wendy Simpson
I think we keep track of them on a daily basis, so at the end of October…

Clint Malin
At the end of October Westminster was at 98%, Burr Ridge was at 64%, and Tinley Park at 42%, and Murrieta was at 56%.

Wendy Simpson
Do we have portfolio in total?

Clint Malin
I don’t have the portfolio in total because of the Kansas buildings included, but they’ve definitely made progress.

Wendy Simpson
And they are stabilized, properties are still stabilized.

Clint Malin
Absolutely.

Chad Vanacore
And then you also mentioned some changes on the expense side there. Have you seen pretty good progress on managing the cost side of business?

Wendy Simpson
Yes.

Clint Malin
Yes. Also Chad, just to go back on the occupancy, if you look at the just as an example the four Colorado buildings and the lowest occupancy right now is October 31st on the four Colorado properties is at 98%. Very strong performance in the Colorado market, which goes back to at this point to the rents.

Chad Vanacore
And those Colorado facilities are really carrying the cash flow for the rest, though.

Clint Malin
Correct. But remember in Chicago there’s two buildings that are in lease-up, Burr Ridge and Tinley Park, and then the two that are under construction. It makes sense for Colorado. I mean it's a more mature portfolio. They’ve been operating longer and the performance there is pretty strong.

Wendy Simpson
And Chad, another thing that we’re monitoring and we’re sensitive to this. At a company that's struggling, we have set our rents so that they don't have a cash crunch. We make sure that they are paying their payables, they are paying their payroll and their payroll taxes and that sort of thing. We are making sure that they are not in any default relative to anything that they have to pay to operate their company, and they’ve been very cooperative in giving us all the information we need.

Chad Vanacore
Okay. Just thinking about the two facilities you transitioned in Kansas City. What's current rent and then what's expected rent on the new leases?

Clint Malin
One building is located in Overland Park and the other is in Wichita, so not in Kansas City, not both of them. Right now the rent is not allocated on the master lease and we are right now working on the negotiation with the other operator to transition the appropriate rent that will be applied to those two. And we haven't quite completed that yet, as we have indicated in our comments by the end of November we expect to have that complete.

Chad Vanacore
All right. And then what about the couple of properties you've transitioned to Thrive, how they're performing? Any changes in occupancy or employee turnover that may depress the near-term?

Clint Malin
As mentioned, they have made a lot of progress on the occupancy with the exception of the building in Jacksonville, which I mentioned in my comments that had pulled back by four basis points. But part of that I think, that's always been – the property had a little bit more challenge with the transition to Thrive plus the hurricane; as you know, Jacksonville was impacted more. Fortunately, our property was not impacted as a result of the hurricane, but just the challenges in the marketplace with the flooding in Jacksonville; we think that was attributable to the downtick on occupancy. But we've been in communication with Thrive. Wendy talked to their principle probably a couple of weeks ago, and they feel more bullish about Jacksonville after they've had a chance to be in there. It seems like they have more optimism about that property.

Chad Vanacore
All right. Thanks for the questions.

Clint Malin
Thank you.

Wendy Simpson
Thank you.

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

Rich Anderson
Thanks and good morning. Clint, you mentioned on the Sunrise, kind of moving parts there, and you thought that there is an upside to NOI ultimately. But would that be like a one step back, two step forward-type of event or do you think it would be almost immediately beneficial to you to see something happen there?

Clint Malin
You know, it depends which way we go between obviously a sale and a lease. I think that given where the margins are currently and the performance, again it's not an occupancy or a revenue concern, it's more on the expense side. If we do end up leasing the properties, there's probably going to be a ramp-up period associated with that would be my guess, depending on where the different offers shake out on this, but we do think there is upside on the expenses for this to drive a more normalized margin than what's currently being experienced on those properties.

Rich Anderson
Okay, and on Genesis I assume LTC was the other large landlord that was referenced on Genesis's call today. Is that correct?

Clint Malin
I don't think so.

Wendy Simpson
What did they reference? That they were looking for rent reductions?

Rich Anderson
No, they said that the other large landlord is not an issue for them, they're doing kind of fine coverage-wise and all that sort of stuff.

Wendy Simpson
Well then yes, we're them.

Rich Anderson
But has there been a dialogue with Genesis and the conclusion was that nothing needs to be done? Is that a fair statement or have they not even approached?

Wendy Simpson
We have not been approached.

Clint Malin
We have been in general conversations ordinary course with them, but again, our relationship is not that large; we have a total of eight properties with Genesis.

Rich Anderson
Okay, I'll define large I guess, I don't know. But speaking of the word large, this larger transaction, can you describe what that means? Is it larger than the pipeline, is it that, or is it even larger than that? I mean I'm trying to get a sense of magnitude. Is this a...

Clint Malin
It would be a little larger than what we've, some of the larger transactions we've done, maybe. The largest deal we closed in the last years was around $140 million, so probably it could potentially be a little bit north of that.

Rich Anderson
Okay, and in terms of the potential seller, is it owner occupier-type of situation or is it a REIT or what is it?

Clint Malin
You know, at this point it's preliminary and we only identified it to just provide visibility into what we're seeing in the market and we have passed on a lot of larger transactions previously. The comment was nothing more than just to make you aware of what we're seeing and as far as pricing and what opportunities may be out there. It's hard for me to go and - it wouldn't be right for me to go into any details at this point in time on that deal, but wanted to share visibility into what we're seeing.

Rich Anderson
Okay fair enough. I just figured I'd ask. It doesn't hurt. Then last question, could you provide any kind of incremental in terms of coverage on Senior Care Centers in Brookdale? Is there any -- can you go down to that level for us in terms of how those are performing lately?

Clint Malin
Yeah, we've given guidance on our portfolio as a whole and really haven't really dove into providing coverage at an operator-specific level. At this point, you know, it's hard to call out specific operators on certain coverages, at this point we just want to see if we can coverage that up at a property-level basis being assisted living and skilled.

Rich Anderson
Okay, but I mean is it fair to say that nothing has dramatically changed, given that the average is kind of relatively the same?

Clint Malin
Correct.

Wendy Simpson
Yeah. We don't have any concerns about either portfolio.

Clint Malin
Correct.

Rich Anderson
All right. Perfect. Thanks very much.

Wendy Simpson
Thanks, Rich.

Clint Malin
Thank you.

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

Michael Carroll
Yes, thanks. Wendy or Clint can you give us some additional color on Anthem and have they done anything differently over the past few quarters that drove this stronger lease-up success they had within those recent completed development projects?

Clint Malin
Yeah, I think the big thing, Mike, is their focus on the existing properties. Before, they were looking at additional development opportunities; they had more projects in development. I think a lot of that comes from just a heightened awareness of the situation they're in, plus they are double-down focused on driving lease-up and occupancy at those communities.

Michael Carroll
Okay, then have you decided if you're going to stick with that operator past I guess end of this year? I think the agreement was just till December 31st. And what factors go into your decision if you're going to stay with them or try to change them out?

Wendy Simpson
Well, the agreement through December 31st was just to give them confidence that we will accept the $400,000 of rent for this period of time, and also to give them the opportunity to say to their group, you know, we are not in immediate danger of losing our company. We did enter into that forbearance agreement. With the improvements that they're making and with the opportunities they have in the future, if we can determine that they will be able to pay a rent that will provide LTC and its shareholders with a proper return, then we will stay with them. I hope that we get there and they certainly hope that they will and are working very hard to get there. That will be the determinant. When we see at the end of the year and first couple of months of course, nothing happens magically at December 31st, and we can project a rent stream that will be a return to LTC and its shareholders, then we will make that determination.

Clint Malin
It also includes the lease-up on the Glenview property. Obviously, it's in I think well located market in the Chicago Metro area and execution on that lease-up obviously is very important and we want the opportunity to evaluate their performance on that lease-up, which we think is in a very strong market.

Michael Carroll
Okay. And then Clint, with regard to the decline in the SNF coverage ratios sequentially that you highlighted, was it just driven by those two tenants that you kind of gave a little color on?

Clint Malin
Yes.

Michael Carroll
And then where are those coverage ratios for those tenants in general? Are they tight enough to be a concern and what's your thoughts longer term for those two portfolios?

Clint Malin
We haven't given coverage by specific operator, but we have seen some decline and we think that they are covering acceptably now. They've covered their management fee, they're still positive coverage, but as there's been somewhat of a downtick, it is something that we've continued to monitor and – we're not highly concerned at the moment, but it's something that we're aware of. We've been in communication with them and we think there are initiatives and efforts that are in place to be able to go ahead and increase coverage going forward, an example being the spend on one of the portfolios that they think they'll be able to recoup some of those costs through higher Medicaid rates. It's not going to happen obviously the next quarter, but over a period of time we think that will make progress and then also going into – and there could be some impacts on expenses next quarter from hurricane-related costs as well, there could be potentially a little bit of downtick next quarter related to some aspects of the hurricane expenses.

Michael Carroll
And how many properties are in those portfolios?

Clint Malin
I don't want to -- giving out information like that would call attention specifically to certain operators, we just want to highlight to make sure you're aware of these situations in the portfolio that we're monitoring. We're being very proactive and we've been in communication with the

operators and we think they're taking the proactive steps to be able to address the decline in coverage.

Michael Carroll
Okay. Great, thank you.

Clint Malin
Thank you.

Operator
Our next question will be from Daniel Bernstein of Capital One. Please go ahead.

Daniel Bernstein
Hi, good morning.

Wendy Simpson
Good morning, Dan.

Daniel Bernstein
Just to summarize quickly, I know you don't want to give out specific lease coverage, but can you generally say whether that's above or below your mean, just to get a sense of what might happen if you have to reset leases or sell their assets?

Wendy Simpson
Yeah, Sunrise has always been less than one. They've always been full and always had high costs, so they've always been less than one. Well, not always, in the last several years, they've been less than one. Because it's in the same store, that pulls down our average coverage. But we've never had a concern about them paying rent and they have paid rent and they have done the proper repairs and maintenance that are required. If we do re-lease them, we would re-lease them at the appropriate coverage ratio, but that would be with the understanding that they would improve operations.

Daniel Bernstein
Actually, maybe you would have higher lease volumes or rent reset or something coupled with that down the road or something like that?

Clint Malin
Correct. And then, Dan, on the Sunrise portfolio, obviously giving coverage specific to Sunrise with that lease that's maturing. Sunrise indicated they don't want to renew and we think it's obviously appropriate to talk about coverage specific to that with a lease that's maturing.

Daniel Bernstein
Okay. And if you remind me, those are not Sunrise Mansions, I forgot the name of the prior operator, but those are sort of smaller properties, right?

Clint Malin
They are originally Carrington properties which we acquired in the 90s.

Daniel Bernstein
They are a little bit smaller, smaller market?

Clint Malin
I wouldn't say smaller market. I mean from a square footage layout, they're probably a little smaller on a square footage basis than one would think of a Sunrise Mansion and probably a lesser number of units as well.

Daniel Bernstein
Okay, okay. No, that's helpful. And then on Genesis and maybe this is more of a general question on how you underwrite loans to SNF operators and maybe seniors housing operators, but you have a small loan to them. Can you talk about the LTV and the assets that backed it up and how you think about underwriting debt investments to operators?

Clint Malin
You're talking about the mezz loan that we did with this?

Daniel Bernstein
Yes.

Clint Malin
You know Dan, we did that few quarters ago, I don't have that information specific with me on the call today but we can...

Daniel Bernstein
Or if you just have a general, a generality of how you think about underwriting those type of loans and still do you have some of those, maybe something like that in your pipeline where you might do some investments like that. How do you think about it on underwriting mezzanine ones.

Clint Malin
Sure. That was a unique mezzanine loans. And really the driving factor in looking at that from a mezz standpoint was the yield as well as the equity that was invested on top of it. And that's really what in that case made it attractive, which was a unique opportunity for that specific mezz investment, given the amount of equity that was on top of the - on us. We felt there was a lot of protection on that investment. Again, I think that is a one-off unique opportunity that was much larger than we typically look at. But it was an off-market transaction that was presented to us. We evaluated the merits and we thought it was a solid investment for us.

Daniel Bernstein
Okay. And then one question on the pipeline. I don't expect you to give me the exact rates that you think you're going to buy assets at or invest in, but just on a real broad basis, have cap rates backed up 25 bps, 50 bps and maybe you can talk about that kind of pricing that you're seeing on the seniors housing versus skilled nursing?

Clint Malin
Sure. I would say, I mean, for lease rates on what we are seeing, probably like we did with Oxford on the existing property, we're probably in the 7% range for existing properties and probably 7.5% on development right now with a few of the projects we have, so that's kind of the band we're looking at on private pay opportunities. On the skilled opportunities, probably depending on lease rate 8.5% to 9%, depending on what the opportunity is, but we've been very selective on the skilled nursing investments, and you know, in the last almost 24 months, we have only acquired and invested in one skilled nursing property. Although we still like skilled nursing, we make sure we need to underwrite it appropriately to invest in it, but we've been very

conservative and only made one investment into a skilled nursing building in nearly the last 24 months.

Daniel Bernstein
All right. Is directionally the investment yield is getting better or is it just hasn't moved yet on skilled nursing?

Clint Malin
About the same. I think, it depends on what type of property you're investing on the skilled side, as far as location, I think in age and what type of revenues are being driven at that property type, or at the property.

Daniel Bernstein
Okay. I appreciate the color. I'll go off and let somebody else. Thank you.

Clint Malin
Thank you very much.

Operator
Once again, if you would like to ask a question, please press star then one. The next question comes from Karin Ford of MUFG Securities. Please go ahead.

Karin Ford
Hi, good morning. Just wanted to see if I could get a little more clarity on your comments for the Anthem rent going forward. You said you wanted to continue with them only if you got an appropriate return for LTC shareholders. should we read from that that you're considering a permanent rent cut there, and should we look at as far as determining where the appropriate return level would be, should we look at where you're making incremental investments for guidance on that or is it something less than where you're investing incremental capital today?

Clint Malin
Well, I think on the Anthem properties, Karin, we would look at potentially maybe staggering rents. We want to participate and get back to where we negotiated for the rents, and as I mentioned on the occupancy in the Colorado communities as an example, there has been very strong performance on the Colorado properties. Obviously to re-lease this portfolio and have another operator go through the lease-up, I mean we probably would have to take some type of haircut initially to bring the rents up. Given the progress that Anthem has made on these properties, they have made strides and progress towards improvement and we want to give them the benefit of that and we are evaluating it. But we want to participate and get back ultimately hopefully to where we originally underwrote these investments. Again, we invest in these at cost, we didn't buy them at an elevated purchase price, they are all invested at cost. Our basis, comparatively speaking to an acquisition is, I think, a very risk-adjusted investment on a per-property basis.

Karin Ford
And if Anthem, as you're working through it, ultimately tells you that they don't think they can get back to the originally negotiated rent levels, would you then consider transitioning or is that kind of non-deal starter?

Clint Malin
I think at that point in time, the assessment for us, is it the market that's driving that circumstance or is it the operator specific that's driving that circumstance? And if we feel that its operator specific and we can be in a better position with higher rents with another operator, I think we will would make that ultimate decision at that time. It really comes down to our assessment of the market versus the operator performance at the time.

Karin Ford
Got it. Thanks for that. My last question is just on the reversal for your outlook on the incentive rent payments that that caused the non-cash income this quarter. You mentioned the operator changed some units over from memory care to assisted living, is that portfolio deteriorating? Are you concerned on that at all, and is there anything else on your watch list?

Clint Malin
This building is a part of a master lease, and the operator saw some additional buildings come online with memory care, they felt there was an opportunity to switch performance and divide it between memory care and assisted living. From where we originally underwrote this, again, we invested in the asset based on what we thought was the appropriate investment and then we allowed the operator to have access to earnout, if performance came to fruition. Given that the change in some of the building performance to assisted living, the rates were coming down obviously from a revenue standpoint. It may be ultimately that they are able to achieve this earnout performance, but there's timeframes we've set on the performance measures to achieve the earnout. And we just don't know at this point in time if they'll be able to achieve that performance within the times provided in the lease agreement, but we're contractually obligated to fund an earnout if they were to achieve that performance.

Karin Ford
Got it. Just one more question. On dispositions, should we expect any sales before year end?

Clint Malin
Before year end it's possible, but it would be small, nothing large. It will be possibly one or two small investments.

Karin Ford
Got it. Thank you.

Clint Malin
Thank you.

Operator
The next question will be a follow-up from Rich Anderson with Mizuho Securities. Please go ahead.

Rich Anderson
Thanks. I just love earnings season so much I just want to keep it going here. As far as the pipeline goes, would you be able to say if you have any interest in some of the moving parts that are out there from existing Genesis landlords like Sabra, Welltower, Omega? Could you see yourself doing that and transitioning the operator into something you're comfortable with or is that not in the pipeline math just yet?

Clint Malin
Not in the math right now, but if there were an opportunity in the market where another operator of ours that made sense geographically, sure, we will look at that.

Wendy Simpson
It would probably come from operator rather than our interest. If an operator is looking at a small portfolio of those assets and brings it to us, we would certainly look at it.

Rich Anderson
Okay. Fair enough. That's all I have. Thanks.

Wendy Simpson
Thank you.

Clint Malin
Thanks.

Operator
Ladies and gentlemen, 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 and thanks to you all for listening and we'll talk to you at the end of the year. Have a great holiday season. Bye-bye.

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