# LTC Properties, Inc.

## 4Q17 Analyst and Investor Call

## Friday, March 2, 2018, 8:00 AM Pacific

**CORPORATE PARTICIPANTS**

**Wendy Simpson** - *President, Chief Executive Officer*

**Pam Kessler** - *Chief Financial Officer*

**Clint Malin** - *Chief Investment Officer*

## PRESENTATION

### Operator

Good morning, and welcome to the LTC Properties Fourth Quarter 2017 Analyst and Investor Conference Call. All participants will be in a listen only mode. Should you need assistance, please signal a conference specialist by pressing the "*" key followed by "0". After today's presentation there will be an opportunity to ask questions. To ask a question, you may press "*" then "1" on your telephone keypad. To withdraw your question, please press "* "then "2". Please note this event is being recorded.

Before management begins its presentation, please know that today's comments, including the question-and-answer session, may include forward-looking statements subject to risks and uncertainties that may cause actual results and events to differ materially. These risks and uncertainties are detailed in LTC Properties' filings with the Securities and Exchange Commission from time-to-time including the Company's most recent 10-K dated December 31, 2017. LTC undertakes no obligation to revise or update these forward-looking statements to reflect events or circumstances after the date of this presentation.

I would now like to turn the conference over to Wendy Simpson. Please go ahead.

### Wendy Simpson

Thank you, operator, and welcome, everybody, to LTC's 2017 fourth quarter and year end investor call. Joining me today are Pam Kessler, our CFO, and Clint Malin, our Chief Investment Officer. I'll begin with the few thoughts including an update on Anthem and our 2018 guidance. Pam will follow with a discussion of our financial results, and Clint will provide commentary on our portfolio investment activity, pipeline and operator partner performance. I'll finish with a quick summary before we begin the question-and-answers.

LTC has successfully managed through several real estate cycles, and no matter the environment, I firmly believe that our focus on flexibility and financing structure creativity has allowed us to meet the evolving needs of our partners while continuing to drive long-term value through a culture of trust, transparency and shared success.

New investment activity was 49 million in the quarter, with the acquisition of an Assisted Living and Memory Care community in Missouri, which Clint detailed on our last call, and two new real estate joint venture agreements, one for the development of an Assisted Living Memory Care and independent living community Wisconsin and the other for the acquisition of an Assisted Living and Memory Care community in South Carolina. Both investments were with regional operators new to our portfolio. In fact, through our business development efforts, we added three new operators to our portfolio during 2017, adding greater diversification.

During and subsequent to the end of the quarter, we sold one property, donated a skilled nursing center in Texas, completed the development of a new private pay Memory Care community in Illinois and entered into an agreement to sale our Sunrise portfolio. As Clint mentioned during our previous earnings call, we engaged investment bankers to run a process to sell or release these assets. The process was highly competitive, resulting in multiple lease and sales option with Keybanc Capital Markets leading the sales process and CS Capital Advisors leading the releasing initiative. We are very pleased with the collaborative process led by Key and CSCA, resulting in the executed sales contract. As always, Clint will provide color later regarding asset sales.

I would characterize our active pipeline as moderate with anticipate growth during the year. We are currently looking at single asset transactions, all of which meet our stringent underwriting hurdles. All were sourced off market, and they all represent a good strategic fit for our portfolio. The pipeline encompasses a variety of deal structures and property types.

Regarding Anthem, in 2018, we expect rent from them to escalate over the course of the year. Currently, we expect to receive $1.1 million of rent from Anthem in the first quarter, $1.2 million in the second, $1.4 million in the third and $1.5 million in the fourth for a total of $5.2 million of rent in 2018. The properties in the Anthem portfolio are continuing to make progress with occupancy rising at Tinley Park and Burr Ridge and Westminster recently reaching stabilization. At January 31st, Tinley Park occupancy was 47%, up from 42% at October 31st, and Burr Ridge was 67%, up from 64%.

Last quarter, we discussed transitioning the two Kansas communities operated by Anthem to another existing partner. While we have an agreement in principle to transition these properties during the first quarter of 2018, we were not able to come to specific terms. So, for the time being, we have decided to keep them with Anthem. We have a great relationship with our other operator and expect to continue to grow with them, but Kansas just wasn't right for that opportunity.

In December 2017, Anthem's Glenview, Illinois Memory Care Community opened, and early lease up figures are encouraging with occupancy at 24% at January 31st. The remaining construction project with Anthem in Oak Lawn, Illinois is on-track for a second quarter opening. Overall, at this time, Anthem has made solid adjustments and improvements. We will continue to closely monitor their progress.

Before I turn the call over to Pam, I'll provide our guidance for 2018. Assuming no additional investment activity, financing or equity issuances, FFO is expected to be between $2.95 and $2.97 per share for the full-year. This assumes net proceeds from the possible Sunrise sale are used to pay down the line of credit debt.

Now, I'll turn it over to Pam. Pam?

**Pam Kessler**
Thank you, Wendy.

We geminated $0.77 of NAREIT FFO, which was $0.01 lower than the same period last year, primarily due to lower revenue and higher interest expense. Revenue decreased due to lower rent from Anthem and properties sold during the past year and lower mortgage interest income related to loans that were paid off. These revenue reductions were partially offset by increases in revenue from acquisitions, development, capital improvement projects and Mezzanine loan investments.

Interest expense increased due to the sale of senior unsecured notes in the beginning of 2017. G&A decreased due to the timing of certain expenditures and lower 2017 investment volume. I anticipate G&A of 4.5 to 4.8 million per quarter during 2018. And finally, income from unconsolidated joint ventures in 2017 increased due to Mezzanine loans originations that are accounted for as joint ventures.

As Wendy mentioned, new investments for the fourth quarter totaled approximately $49 million, including a $21.6 million development commitment, which Clint will discuss in greater detail. In

addition to the $27.4 million funded for acquisitions during the quarter, we funded an additional $12.1 million under existing commitments for development and capital improvement projects. We currently own three properties under development and two properties under renovation with remaining commitments totaling $47 million. We also have remaining commitments under mortgage loans of $17.7 million related to expansions and renovations on seven properties in Michigan.

During the quarter, we borrowed $41.5 million under our line of credit, repaid $12 million of senior unsecured notes and continued to fund our $0.19 per share monthly common dividend. Subsequent to December 31st, we borrowed $24 million on our line of credit, under which we currently have $120.5 million outstanding.

Our balance sheet remains strong with significant flexibility. We have maintained a long-term debt to maturity profile that is well matched to our projected free cash flow, helping moderate future refinancing risk. We have no major long-term debt maturities over the next five years, and we maintain significant liquidity to meet our obligation and fund future expected growth.

Currently, approximately $480 million remains under our line of credit, $68 million under our shelf agreement with Prudential and 1$85 million under our ATM program, giving us $733 million of availability. We plan to continue to allocating capital strategically and conservatively to help ensure profitable long-term growth and to provide increasing value to our key stakeholders.

At the end of the fourth quarter, our credit metrics continued to compare well to the healthcare REIT industry average with debt to annualized normalized EBITDA of 4.3 times, a normalized annualized fixed charge coverage ratio of 4.8 times and debt to enterprise value of 28%.

I'll now turn things over to Clint for a discussion of our investment activity, pipeline, and portfolio metrics. Clint?

**Clint Malin**
Thank you, Pam.

As Wendy mentioned, 2017 ended on a strong note with a nice uptick in investment activity closing three new investments. First, we acquired a 73-unit newly built Assisted Living and Memory Care community in Kansas City, Missouri. I discussed the acquisition at length last quarter, so I'll just remind you that the deal was with an existing partner, Oxford Senior Living, which now operates three private pay communities owned by us.

The other two completed transactions are comprised of real estate joint venture agreements, demonstrating our ability to provide unique financing solutions to our operating partners. The first agreement is to jointly develop a 110-unit Assisted Living, Memory Care and independent living community in Wisconsin with Tealwood Senior Living and Developer Tukka Properties. The total estimated project cost, including the land purchase, is $22.5 million. Near the completion of the project, we plan to enter into a 10-year lease agreement at an initial cash yield of 7.5% with Tealwood, a new operating partner for LTC.

Tealwood was founded almost 30 years ago and currently has management and operational responsibilities in over 50 independent living, Assisted Living and Memory Care communities as well as skilled nursing centers across Minnesota, Iowa, Nebraska, and South Dakota. Construction has commenced, with a planned opening date in the spring of 2019.

Through the second agreement, we acquired an 87-unit Assisted Living and Memory Care community in South Carolina for $10 million with a new operating partner, Affinity Living Group. Simultaneously, we entered into a 10-year master lease agreement with an affiliate of Affinity at an initial cash yield of 7.25%. Affinity operates Assisted Living, Memory Care and independent living communities predominantly in the Southeastern United States.

As part of the acquisition, the joint venture has made available $1.5 million for capital improvements. For 2017, we invested a total of $81 million in the acquisition of private pay assets and committed to an additional $22.5 million for the Tealwood development project totaling $103 million of underwritten transactions shown in our supplemental.

Our 2017 investments continue our strategy of adding newer modernized properties to our portfolio by expanding our relationships with strong regional operators. During and subsequent to the end of the quarter, we also identified opportunities to recycle capital assets that are no longer core or strategic. We sold a 36-unit closed Assisted Living community in Oregon for $1.4 million and reported a net loss on sale of approximately $70,000 and donated a small skilled nursing center in Texas to a non-profit healthcare provider. The carrying value of this property was $1.2 million. Neither property paid rent during 2017.

On a larger scale, we entered into a contract to sell our Sunrise portfolio comprised of six senior living communities in Ohio and Pennsylvania. The master lease related to this portfolio expires on April 30th. The anticipated closing date of the sale, subject to conditions precedent to closing, is May 1st. The agreement is subject to various confidentiality restrictions, so while we are not able to provide specific details at this time, we do expect to record a sizeable gain on the sale.

Please note that the possible Sunrise sale is included in the guidance Wendy gave earlier. We are actively pursuing strategic opportunities to put this capital to work. Over the last five years, we have recycled $80 million of capital at an average of $16 million annually. We plan to continue evaluating our portfolio to find additional opportunities as warranted with a focus on being strategic and selective. It is most likely that future sales would be of single buildings rather the large portfolios.

Our active pipeline is guided approximately $50 million. The pipeline size is fairly typical for us at this time of year and will likely grow throughout 2018. Currently, we are actively engaged with three potential transactions encompassing a variety of deal structures and property types, all of which were sourced off market. One is for a loan with a current operating partner related to a skilled nursing center in a suburb of Detroit. The other two on expansion of a potential deal I discussed in detail last quarter with an operator in the Pacific Northwest. The deal, which is structured as a real estate joint venture in the state of Oregon, was originally for the development of an Assisted Living and Memory Care community. We have since expanded the deal to include the acquisition of an independent living community on an adjacent land parcel to create an integrated campus.

In addition to our active pipeline, we are cultivating several additional off-market opportunities with operators that would be new to our portfolio and expand multiple property types and deal structures from development to acquisitions to joint ventures.

These opportunities take a bit longer to conclude, so they are not included in our active pipeline. We continue to believe that LTC's strong balance sheet makes us extremely competitive in the marketplace for new investments and allows us to move quickly as opportunities materialize.

Now, I'll finish with a few comments on our portfolio. Of the two Thrive Memory Care communities added to their master lease in September, the Louisville community saw a dip in occupancy at December 31st as reported in our supplemental, since has returned to 73% at January 31. Unfortunately, Thrive's Corpus Christi Community in Texas saw a setback in occupancy from 65% at September 30th to 57% on January 31st. We are actively monitoring our portfolio with Thrive and engage with them as they progress through lease up of the six communities which have opened at various times during the past 20 months.

For our portfolio statistics, which as a reminder are reported one quarter in arrears, Q3 trailing 12 month EBITDA and EBITDAR coverage using a 5% management fee on a same store basis was 1.89 times and 1.38 times respectively for our Skilled Nursing portfolio and 1.43 times and 1.21 times respectively for our Assisted Living portfolio.

While coverage in our Assisted Living portfolio remains fairly stable on a same store basis to recent quarters, our Skilled nursing portfolio coverage declined three basis points. As would be expected in the current industry environment, some operators in our portfolio continue to face challenges relating to length of stay, labor cost and Managed Care pressures. We are engaged with our operating partners, monitoring their performance and their implementation of various strategies as they manage through the cycle and the industry.

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

**Wendy Simpson**
Thank you, Pam and Clint.

I hope you've heard through our remarks today that we remain positive about our prospects, and more importantly, LTC's ability to drive profitable growth over the long term. Although several overarching themes continue to impact the seniors housing industry and equity REIT share pricing has been volatile, there are pockets of opportunity for savvy, disciplined and innovative and well-funded capital partners like LTC. We agree with many of our peers that the market is currently in a state of price discovery, both in terms of asset pricing and cost of capital.

Nonetheless, I am confident that we can successfully meet the needs of our operating partners through financing flexibility and creativity. Not only are we being creative in how we are structuring deals but also in terms of how we are deploying capital. Our committed capital to date is approximately $67 million, which includes development, renovation and expansion.

I remain as optimistic as ever about our future for several reasons. We have built a portfolio to generate FFO through 2018 and beyond. We are well capitalized, and we successfully demonstrated our ability to provide creative ways to add value for our partners and our shareholders. I look forward to updating you next quarter on our progress.

Thank you all for joining us today. We'd now be happy to take your questions.

## QUESTION AND ANSWER

**Operator**
Thank you. We will now begin our question and answer session. To ask a question, you may press "*" then "1" 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 "*" then "2". At this time, we will pause momentarily to assemble our roster.

The first question today will come from Jordan Sadler with KeyBanc Capital Markets. Please go ahead.

**Jordan Sadler**
Thank you. Good morning. I was curious, for the guidance, is there an impact that you can lay out, or can you tell us what the guidance might look like without the sale of the Sunrise portfolio?

**Wendy Simpson**
What we've included in guidance, Jordan, is a reduction in the Sunrise rent--Pam's showing me something.

**Pam Kessler**
To $1.5 million.

**Wendy Simpson**
To $1.5 million, which is a $3 million increase year-over-year--decrease. I'm sorry. So, it’s a $3 million decrease year-over-year. So, we have Sunrise in for rent through April.

**Jordan Sadler**
Got it, through April, $3 million decrease. And then is there also--are you including some interest savings associated with the proceeds or--because I heard, I think, Pam, you said you're assuming you pay down the line.

**Pam Kessler**
Yes, that is correct - some interest savings, but we've also adjusted for the increase in LIBOR, so interest expense on the line we're pegging at about 3.5% right now.

**Jordan Sadler**
Okay. That’s helpful. And then separately, can you give us an update on Preferred? I didn’t hear much going on there. Where do we stand with that tenant?

**Clint Malin**
Sure. Preferred is progressing through the bankruptcy case right now. They have received an extension for a date to assume and reject leases until June 11th. So, [unintelligible] that extension. Through a recent court filings, it appears they have a tentative deal to transfer the majority of the New Mexico locations they have. They're making progress on exiting New Mexico and Kentucky. So, right now, they're working through the process, and it seems like things are going smoothly for them.

**Jordan Sadler**
So, you would expect your leases to be affirmed?

**Clint Malin**
Yes, that's what the company has told us, and they're cash flow positive. They're in states where they currently operate, so, yes, we do assume that they will affirm our leases.

**Wendy Simpson**
And they're current on rent.

**Clint Malin**
Remember their bankruptcy filing, they were current on their obligation to the organization prior to filing bankruptcy, which is very atypical for a company entering into bankruptcy. So, it was really born out of a strategic filing associated with effectively one creditor, which was a judgment, a lawsuit comprised on a majority basis of punitive damages.

**Jordan Sadler**
Okay. And with that backdrop, I know that wasn't necessarily related to industry conditions and fundamentals, per se, but given the slippage in the coverage, any other tenants that have maybe made it on to the watch list as a result of upcoming rent increases or deteriorating conditions?

**Clint Malin**
We've seen it in certain operators. There's been some operators moved up, some operators moved down a little bit. It seems to point to the comments I made in my prepared remarks about, certain markets, there are more cost pressures than others, and other markets, there's more challenge on length of stay. So, not every operator is faced with each of the items that I talked about, but nonetheless, they have some component of those pressures, but then there's other operators in our portfolio that have seen upticks, as well.

**Jordan Sadler**
Okay. Last one from me is just on the Genesis loan that you guys have. Any changes there? They just went through a bit of a restructuring on much of their capital stack and leases. Or, is yours status quo?

**Clint Malin**
No changes right now. I believe they're trying to look at selling a couple of the assets within that portfolio, but no significant changes or impact to us. The credit behind that loan is very strong with a significant amount of equity invested. So potentially for us, if there was a sale of some of the assets, there's a pay down of debt provided for in the documents if that were to be granted and consented to. So, it probably for us would be a minor amount because that would be a pay down I think through all of the debt structures. So, it wouldn't be significant, but there could be some potential pay down on principle on that loan.

**Jordan Sadler**
Okay.

**Clint Malin**
Thank you.

**Operator**
The next question will from Seth Canetto with Stifel. Please go ahead.

**Seth Canetto**
Hey, good morning.

**Pam Kessler**
Good morning.

**Seth Canetto**
First question, just on the Anthem rents and the ramp-up for the year - the $1.1 million seems to be a little bit below the $400,000 per month. And then what gives you guys confidence that they can achieve the $1.4 [million] and $1.5 million in the back half of the year?

**Pam Kessler**
The lease-up properties are leasing up, as I indicated, that Tinley Park and Burr Ridge are leasing up. The Glenview property has opened strong, and we're hoping that it continues to be strong. Westminster and--what's the other one in Denver--will have reached stabilization during last year, so they should be stabilized all of this year. So, those are the reasons. The $400,000 that we got in cash last quarter, we allocated $40,000 a month to real estate taxes. So now, we're hoping--we're hoping--we're expecting them to pay the rent and real estate taxes on top of that for this current year. So, all of those factors go into having Anthem be able to pay cash rent based on our projections.

**Seth Canetto**
And then is there any impact from just new supply in 2018 or the flu in 1Q that might trickle into 2Q that could slow those lease-ups?

**Clint Malin**
Not that we're aware of right now. It's always possible, but right now, they've made a lot of progress on their lease-up, and we're not seeing that currently on these properties.

**Wendy Simpson**
And they've also seen--they've also achieved overhead reductions, which we had asked for. And they'll achieve a little bit more this year as they stopped construction once the Glenview--or Oak Lawn property opens up in, I think in May.

**Seth Canetto**
All right, great. And then just thinking about your decision to sell the Sunrise portfolio, can you just walk us through how you weighed the near-term dilution versus the opportunity to lease that portfolio? I know you guys had mentioned last quarter that there seemed to be significant NOI improvement just given how the portfolio was run on the expense side.

**Clint Malin**
Sure. We had--that's the hard part for us is going through and mulling the options, see what was the best logical outcome for us. Part of that analysis is looking if we could sell the assets, how would we redeploy that capital, and could we redeploy the capital into newer assets. And at the prices that were tendered on bids and what we ended up doing a contract, we think that it's a likely outcome for us to be able to redeploy that capital into new assets. We did have some viable lease options I think that would have been good options for us to build relationships with regionally based operating companies, but the counterparty, the execution risk associated with sale and the price point made sense for us.

**Seth Canetto**
All right, thanks. And then did these new opportunities, are they mostly like acquisitions on development, or are you guys going to do some more JVs, or how should we think about the pipeline?

**Clint Malin**
It's a little bit of everything. I detailed the specific items that are in our active guidance, but beyond that, we're looking at a lot of different opportunities, some construction, acquisition, new operating partners, definitely joint ventures. As evidenced by our investment activity in 2017, it's been a structure for us to reach out to operating companies that typically haven't utilized sale lease back financing to partner with them on a creative financing structure that has worked for them. So, I do see us doing probably more of that.

**Seth Canetto**
All right. And then assuming that you guys pay off the line of credit with the capital raise from the Sunrise sale, how quickly can you give us any idea in terms of timing when all that capital would be redeployed?

**Clint Malin**
We're working as fast as we can.

**Seth Canetto**
All right. And then just lastly on the Thrive Memory Care in Corpus Christi, was the occupancy impacted by the hurricane? Is that really what's driving that decrease?

**Clint Malin**
They did that some impact from the hurricane on that building, so that is definitely a component. But, they've had just ebbs and flows in that market. It is a little bit outside of their geographical core. So, it is a building--they've seen a little bit of slippage on that, but they've definitely refocused their operations and focused on performance of that building. So, although we've seen a little bit of dip, they're aware of this, and they are focused on the lease-up of that property.

**Seth Canetto**
All right, great. That's it from me. Thanks for taking my questions.

**Wendy Simpson**
Thank you.

**Operator**
The next question will come from Rich Anderson with Mizuho Securities. Please go ahead.

**Rich Anderson**
Thank you. Good morning. Can you hear me?

**Wendy Simpson**
Yes, we can.

**Rich Anderson**
Okay. So, just a couple of more questions - Clint, you said you're keeping an eye on your portfolio and seeing how operators are kind of navigating through some of the stresses to the

business. Could you give a sense of how big that--I'm going to use the word watch list--how big that is relative to the size of your overall portfolio? Is it 5% or 10% of your operators, or is that too much to think about?

**Clint Malin**
I haven't really put it down into a percentage basis, but you see in our supplemental, we have a lease-up page, which we've highlighted for you.

**Rich Anderson**
Yes.

**Clint Malin**
Properties that are in the lease-up phase, so that definitely is a focus of our attention. On the skilled side, it's not significant. We have a number of operators we are following, but nothing more than normal course and engaging with our operating partners and monitoring what they're doing and talking with them if there's capital deployment that we could do to help them facilitate and make them more competitive in their marketplace - so, really, normal course for us, Rich.

**Rich Anderson**
Okay, fair enough. And then just looking for some of the more high-profile operators in your portfolio, you mentioned Preferred Care, which really wasn't a direct hit to you in terms of their bankruptcy, but it's still a guilt-by-association issue, I suppose, and Genesis and Senior Care and Brookdale and Senior Lifestyles all varying degrees of REIT problems in the market right now.-- Do you have any anxiety there when you consider that group of five in terms of maybe dodged some bullets, or are they on your watch list in a way only because they're giving some problems to some of your REIT peers?

**Clint Malin**
Well, I would say that's on a couple of fronts, we think from a Preferred Care standpoint, we think they're going to end up being a stronger company through this process. So, our buildings performed. They paid rent. So, we think that will be a positive for Preferred Care.

I know there's been some discussion on various earnings calls regarding Senior Care Centers. Doing our deals with Senior Care Centers, we've underwritten property specific, and our performance and cash flow on those buildings right now are doing fine. So, we don't see some of the same challenges that others do.

We were selective on those deals, underwrote those, and although they've had a little bit of decline in coverage, but still what we call more than adequate. And they've hired a new COO. They've brought in what we think is a positive step for Senior Care Centers.

So, our Brookdale properties have strong coverage. Although they've been in the news and in discussions with some changes there, our Brookdale assets performed very well. So, nothing of the specific concern on those tenants, Rich.

**Rich Anderson**
Okay, fair enough. And then this is just more of a curiosity question, but you're reporting fairly late in the quarter. Was there a reason to have something to say about Sunrise? Or just if you could maybe explain--maybe there's no explanation, but did you want to have more to say? Is that why you're maxing out your report--?

**Wendy Simpson**
--Yes, there were basically two things. We wanted to give you as current information on Anthem as we possibly could, and so through February, they're doing well. They're tracking to their projections. And also, Sunrise sale or--.

**Rich Anderson**
--Okay. All right. From that standpoint, we appreciate it. So, that's all from me. Thanks very much.

**Wendy Simpson**
Thanks, Rich.

**Operator**
The next question will come from Daniel Bernstein of Capital One. Please go ahead.

**Daniel Bernstein**
Hi, good morning.

**Wendy Simpson**
Good morning, Dan.

**Daniel Bernstein**
Hi. Last quarter, you talked about a couple of large potential transactions that are out in the market that you might have been looking at. You really didn't talk about it much today or at all for the day. So, I just wanted to understand are you still interested in some of those large transactions, or are those gone by the wayside?

**Clint Malin**
Dan, we were debating whether or not last time to talk about that large transaction. For transparency, we wanted to give you visibility on what we're looking at and that there was a transaction that we--probably shown to a few number of people. We thought it had a lot of interest to us. At the end of the day, the seller decided to not proceed with selling the asset. But, it's something that we typically haven't done larger transactions except in certain cases, but we do spend time in select cases looking at larger opportunities where we think there is opportunity and alignment with a new operating partner to bring into our portfolio.

**Daniel Bernstein**
Okay. Earlier, I think Wendy mentioned it's a time of price discovery. Are you seeing portfolios or individual assets start to retrade? Are you seeing any movement in cap rates, any other more value-add or distressed assets out there that might be of interest? Just trying to understand how that that market dynamic for investments and acquisitions might be changing, or how you think it might change?

**Clint Malin**
Sure. On the private pay side, Dan, especially when you have marketed transactions, we've not seen any movement on cap rates. Pricing is still very strong on stabilized assets, so we have not seen movement on that. However, with the change in equity prices on the REIT side, I think that causes people to sit back and look at how they deploy capital and what cost they deploy capital. I'm sure our peers are having the same discussions that we are internally about pricing and cost of capital. But, there's still a lot of private equity money out there, private buyers and access to debt, so we've not seen lot of change in pricing on private pay assets. We do see

distress here and there, and to the extent we can find opportunities going forward and look for those opportunities to partner with the right operating company to take advantage of opportunities, absolutely look forward to that.

**Daniel Bernstein**
Okay. And then one more quick question - I was just thinking about the number of assets that you have in lease up, and aside from Anthem, which you've discussed, is there some expectation that we should have when we model or when we think about in the future that rents should go up commensurate with the lease up of those assets? I just want to understand how you're getting paid today on those lease-ups versus potential upside when those properties do stabilize?

**Wendy Simpson**
They're accounted for on a straight line basis, so it's already--to the extent they've reached their certificate of occupancy and they're in lease-up, we're already recording all the revenue that we would get from them.

**Clint Malin**
We provide various mechanisms to facilitate the lease up, whether it's a lease inducement or deferred rent. We've modeled that in the numbers that Pam mentioned on lease up properties.

**Daniel Bernstein**
Are those lease-up facets in your lease coverage' at this point or no?

**Wendy Simpson**
No, we use same-store stabilized, which does account for about 90% of our portfolio, though. Only about 10% of revenue is not in same-store.

**Clint Malin**
Okay.

**Wendy Simpson**
Pretty much, yeah, or things we bought for the past year.

**Daniel Bernstein**
Okay. I appreciate the color. I'll hop off. Thank you.

**Wendy Simpson**
Thank you, Dan.

**Operator**
The next question will be from Michael Carroll with RBC Capital Markets. Please go ahead.

**Michael Carroll**
Yeah, just real quick, a follow-up on the Dan's last question - when does the cash start commencing for those assets, for the lease-up assets?

**Clint Malin**
We usually underwrite anywhere from 18 to 24 months on the lease up, so they have typically a lease inducement deferment back for a period of time, so the payments can be comprised of utilization of a lease inducement and cash, so it can vary by project.

**Michael Carroll**
So, by 18 months, the full cash rents should start being paid, or 18 to 24 months?

**Clint Malin**
18 to 24 months, but I'd say average 18.

**Michael Carroll**
Okay, great. And I just want to take a quick dive-in to Thrive a bit more. I know that operator is currently leasing up a lot of recently completed development projects. Do they have enough capital or cash on hand to fund those ramp-ups right now?

**Clint Malin**
To our knowledge right now, they do, yes. We did--when they took over the two Clarity Pointe buildings, we provided them with lease inducement to facilitate them going through the lease-up some of the other buildings like Westchester, which opens up mid-year or last year, and that was provided a lease inducement.

An example of Westchester right now, they're currently at 58%, which you think is a tremendous lease-up volume on that community. They've also got tremendous lease-up volume on the Athens, Georgia property, which in January sitting almost 90%. So, they've had some very positive lease-ups in those. Lease ups obviously help provide cash flow to their organization.

**Michael Carroll**
Okay. Then can you provide an update on the Clarity Pointe assets? It looks like occupancy has stayed flat or even declined since they took over? Are they trying to implement new processes, which is taking their eye off the ball a little bit or is making that a little bit more complicated? Why we aren't we seeing more improvement there?

**Clint Malin**
I talked about that much in my prepared remarks. We did see a dip in December for the Louisville property. But, as I mentioned, it’s bounced back up to 73%, which is where it was at in September. Part of that on the Louisville property was there was a number of very high acuity residents in that community, and when Thrive came in and transitioned that, they ended up discharging some residents because of levels of care. So, that was an intentional decision they chose to do to discharge a few of the patients at that. But, they’re making progress on the continued lease-up of that property. I think for those two buildings that they've come into, just takes a little bit of time for them to get in and integrate their policies, procedures, staffing to be able to facilitate the changes there. But, I think that probably was a good move for them is to have the right residents in the community and to discharge if necessary, and it made sense for them. So, they’re making the right decisions.

**Michael Carroll**
Okay. And I know historically, LTC has, and still do, -had very strong triple net lease coverage ratios, and obviously, there's been some pretty big declines over the past several quarters. Should we expect those coverage ratios to start improving over the next few quarters, or could they get back to the levels that you guys had just a few years ago?

**Clint Malin**
We're hopeful that we’ll see an uptick on that, Mike. I talked last time about two operators in our portfolio on last quarter’s call. One had seen some challenges on length of stay, and they were

implementing programs to focus on different patient populations, and also, there was some cost spend towards improvement of Medicaid rates going forward. So, through that, we hope there is some upside that can be realized in coverage.

And on the other operator I talked about last time, they were impacted by expenses, and I think they had other focuses in the portfolio, and cost containment maybe lost sight of that a little bit. So, as that organization focuses on cost containment and trying to improve that, I think we'll hopefully see some improvement in those two portfolios, which hopefully will translate into some upward movement on our coverage.

**Michael Carroll**
And then is that weakness fully reflected in the coverage ratios today, or should we expect another tick down next quarter as the fourth quarter rolls online?

**Clint Malin**
I would say there may be--there's not going to be a lot of large variability going forward. But, there could be a couple basis point tick down possibly, but I don't see at this point any large swings in coverage.

**Michael Carroll**
Okay, great. Thank you.

**Clint Malin**
Thank you.

**Wendy Simpson**
Thanks, Mike.

**Operator**
Again, if you have a question, please press "*" then "1".

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

**John Kim**
Thanks, good morning. Just a follow-up on the coverage - so, I think, Pam, you said that it's about 90% of your total portfolio in these coverage statistics today.

**Pam Kessler**
Yes.

**John Kim**
Okay. What would be the coverage if you included your entire portfolio?

**Pam Kessler**
Well, they're in lease up, so it's not relative, it's not, yeah.

**John Kim**
Okay. But, you don't take out assets that are, I don't know, being released or--.

**Clint Malin**
--It's only assets that are lease up. We have not taken out buildings that aren't performing out of our--.

**Pam Kessler**
--And assets we recently purchased where we don't have them in the comparative period. So, our same-store are the exact same assets in the comparative period, so you had to have owned them for than a year.

**Clint Malin**
But, what's excluded primarily is acquisitions have met that criteria or in lease-up.

**Pam Kessler**
Yes.

**Clint Malin**
Now, the one thing that we would see on our coverage going forward, should we close on the sale of the Sunrise assets, that would have some upward movement in our Assisted Living coverage?

**Pam Kessler**
Yes.

**John Kim**
And just as a policy, do you update your same property portfolio once a year or every quarter?

**Pam Kessler**
Every quarter.

**John Kim**
Wendy, you mentioned in your prepared remarks opportunities for well capitalized owners to be creative. I'm just wondering what you meant about being creative. Is it something in the lease structure that might be atypical or just doing more kind of Mez investments or different kinds of investments?

**Wendy Simpson**
Yes. In the lease structure, definitely, we've talked about going from a stated 2.5% increase to a CPI increase in new leases if that would be beneficial to the operator. We've done some successful joint ventures recently where the operator has some equity interest in the building, and that is attractive to some operators, and we've looked at adding on services to other properties. We were looking at a development opportunity, and next to that development opportunity was possibly an asset that we could buy that would enhance that operator on a total campus type situation. So, we want to be open to many different opportunities.

**Clint Malin**
Looking at earn-out structures also, looking at entertaining and in certain cases purchase options possibly under a lease structure, continue to look at development, some independent living, for the right opportunity, some Mez preferred equity, so a lot of different ways to look at deploying capital and building and growing relationships with companies.

**Wendy Simpson**
But, right now--and again, we're not looking at any RIDEA [sp] structures, so that's not anything that we would be adding on to our portfolio during the year, though we've had opportunities to look at things, if it's got a significant RIDEA structure or component, we're passing on those.

**John Kim**
And operators for the most part are still willing to sign triple net lease long-term structured leases?

**Clint Malin**
We signed a couple last year. So, yes, it depends on the circumstance situation. I mean, if it's a fully valued stabilized asset and you're coming in with no coverage, no, that's where I think a lot of operators have concerns with signing triple net leases in that situation. But, we've evidenced we've been able to execute last year triple net leases. So, there are opportunities. But, again, those were off market, as well. So, it's building relationships, getting in to know these companies and being able to provide the capital at the right time when the opportunity presents itself.

**Wendy Simpson**
There are several operators who don't like triple net leases, and there are several operators who operate well under the properly costed triple net lease. You enter a triple net lease that already has skinny coverage, and then you add on rent increases, and it's a formula for disaster, which we found with some of the bigger triple net leases that have been in the marketplace.

And that's probably one of the reasons that LTC hasn't had a significant problem with their operators because we tended not to overpay, and we don't intend to overpay even in this environment. And I think we're going to see a lot of deals that have been announced that we couldn't underwrite and wouldn't underwrite because of overpaying for assets on a triple net lease basis doesn't work.

**John Kim**
Okay. And then a question on Brookdale. I think, Clint, you mentioned your portfolio is performing well with them, but if you can provide any additional commentary on the performance and also the lease maturity, which I think there's one later this year.

**Wendy Simpson**
The lease maturity is 2020. There are two assets in the lease that are in a separate lease. The 2020 is a master lease. There are two assets that came through their Ameritas acquisitions, Bakersfield and Vacaville, that the lease expires this year. And we'll be looking at replacing the operator or selling those assets, but Brookdale doesn't want to renew that lease.

**John Kim**
Great, thank you.

**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.

## CONCLUSION

**Wendy Simpson**
Thank you very much for joining us. And I'm sorry that we were so late in the season, but as I said, we wanted to give you as much current information as possible on two significant operators. And we look forward to talking to you in just a couple of months. Have a great day. Bye-bye.

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