LTC Properties, Inc.

2Q18 Analyst and Investor Call

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CORPORATE PARTICIPANTS

Wendy Simpson – *Chief Executive Officer*

Pam Kessler – *Chief Financial Officer*

Clint Malin – *Chief Investment Officer*

PRESENTATION

Operator
Good morning and welcome to the LTC Properties Second Quarter 2018 Analyst and Investor Call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero. After today's presentation, there will be an opportunity to ask questions. To ask a question you may press star, then one on your touchtone phone. To withdraw your question, please press star then two.

Before management begins its presentation, please know that today's comments, including the question and answer session, may include forward-looking statements, subject to risks and uncertainties that may cause actual results and events to differ materially. These risks and uncertainties are detailed in LTC Properties' filings with the SEC 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. Please note, this event is being recorded.

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

Wendy Simpson
Thank you, operator, and welcome everybody to LTC's 2018 Second Quarter Investor Call. Joining me today are Pam Kessler, our CFO; and Clint Malin, our Chief Investment Officer. I'll begin the call with some introductory remarks. Then Pam will follow with a discussion of our financial results. And Clint will provide commentary on our portfolio, potential asset sales, and operator partner performance. I'll finish with a brief wrap-up before we begin the questions and answers.

We have been laser focused on evaluating and strengthening our portfolio, positioning LTC for continued long-term success. Importantly, by listening closely to our operators, we offer creative financing solutions that go beyond traditional sale leaseback including real estate joint ventures, preferred equity and mezzanine lending to best meet operators' various goals, strategies and needs.

During the second quarter, we took additional steps to bolster our business by adding new operator relationships strategically acquiring communities, completing another real estate joint venture partnership, working toward asset dispositions, and entering into a new line of credit. We cannot emphasize enough that our business is built on operator relationships. By focusing on building meaningful connections, we have added five new private pay regional operators. The majority of these were sourced off market.

We are excited about the potential for long-term growth with each of these companies. We believe that in the current market, it remains prudent to continue selectively identifying opportunities to sell assets and recycle the capital into new investments.

Most properties that we are selling or contemplating selling are older. Some may be non-core to us or our partners and yet others may be driven by a tenant who wants to buy the property back. While there are many reasons an asset sale could make sense, we will only proceed if it is strategically and financially advantageous to LTC. Clint will offer more color later on the call. Now I'll provide an update on a couple of our current operators.

We remain pleased with Anthem's ability to pay higher rent in line with our expectations, but continue to work closely with them to ensure they achieve the goals they committed to for 2018.

Occupancy at Anthem's Marietta community increased to 88% at July 31st, up from 71% at April 30th. While the communities in Burr Ridge, Tinley Park, and Glenview were roughly flat. Oak Lawn, which began admitting residents in late May was 20% occupied at July 31st.

Moving on to Thrive, we have been closely monitoring their operations and progress. We just recently signed a lease amendment to provide Thrive with support in the form of up to $1.4 million of deferred rent through June 30, 2019 as they worked through continued lease-up softness.

On an aggregate basis, occupancy was flat across our Thrive portfolio at July 31st when compared to April 30th. Before I turn things over to Pam, I'll provide an update on our 2018 guidance. The new guidance assumes no additional investment activity, financing or equity issuances, but does assume certain asset sales.

FFO for 2018 is now expected to be between $2.99 and $3.01 per share. This is an increase of $0.03 at each end of the range.

Next we'll hear from Pam. Pam?

Pam Kessler
Thank you, Wendy. NAREIT FFO was $0.75 compared with $0.79 in last year's second quarter. The decrease related to a reduction in revenue and higher interest expense.

Revenues were down about $1 million from last year's second quarter as a result of properties sold over the past year and putting Anthem on a cash rather than accrual basis as has been previously disclosed. Revenue decreases were partially offset by an increase in revenue from acquisitions, completed development projects, mortgage loan originations and capital improvement projects.

Interest expense increased $500,000 due to higher average debt balances outstanding during the quarter and an increase in short-term interest rates.

G&A expense was $4.7 million within our target range $4.6 million to $4.7 million per quarter. We expect to remain in this quarterly range for the rest of the year.

During the quarter and in conjunction with its lease expiration, we completed the sale of our Sunrise portfolio for $67.5 million and recognized a gain of $48.3 million.

In Q2, we acquired two memory care communities in Texas for $25.2 million. We also funded $600,000 for a land purchase made by a new real estate joint venture in Oregon. Clint will discuss these transactions in greater detail.

As Wendy mentioned, we also entered into a new unsecured credit agreement to replace our former 2014 facility. The new credit agreement includes a $600 million commitment with the ability to increase up to a total of $1 billion. We also have extended the maturity of the agreement to 2022 with a one-year extension option at LTC's discretion.

The agreement reduces the interest rate margins and converts from the payment of unused commitment fees to a facility fee. At June 30, we had $85.5 million outstanding under the facility with pricing at LIBOR plus 115 basis points and a facility fee of 20 basis points.

In the second quarter, we borrowed $35 million under the line of credit to fund acquisitions and capital improvement projects. Subsequent to June 30th, we borrowed an additional $14.5 million bringing the total outstanding under our line of credit to $100 million and repaid $14 million in senior unsecured notes. We funded our $0.19 per share monthly dividend and $13.3 million under existing commitments for development and capital improvement projects during the second quarter. At June 30th, we owned three properties under development and two under renovation, with remaining commitments totaling almost $47 million.

Of the development projects, one is expected to be completed in the fourth quarter of this year, one, in the second quarter of 2019, and a third by the end of 2019. We also have $15.2 million in remaining commitments under mortgage loans for expansions and renovations on seven properties located in Michigan and $2.1 million remaining under a preferred equity commitment.

Our balance sheet remains strong and we've enhanced our flexibility and liquidity through our new line of credit with a $400 million accordion feature, giving us additional dry powder to fund future growth initiatives. Currently, $500 million remains available under the line of credit, $78 million under our shelf agreement with Prudential, and $185 million under our ATM program, giving us a total availability of $763 million.

We remain true to our strategic and conservative capital allocation philosophy, which has served us well through many real estate cycles. Our long-term debt to maturity profile remains well-matched to our projected free cash flow, helping moderate future refinancing risk.

Additionally, as you know, we have no major long-term debt maturities over the next five years. At the end of the second quarter, our credit metrics compared well to the health care REIT industry average with debt to annualized normalized EBITDA of 4.3 times, a normalized annualized fixed charge coverage ratio of 4.7 times, and a debt to enterprise value of about 28%.

Now I'll turn the call over to Clint. Clint?

Clint Malin
Thanks, Pam. I'd like to start by providing additional detail about our acquisition in Texas and our real estate joint venture relationship in Oregon. First, I'll talk about the two memory care communities in Texas which were purchased through a sale leaseback from Koelsch communities. Koelsch developed and will continue to operate them under a 10-year master lease at a starting cash yield of 7.25%.

As part of the underwriting process, we agreed to provide approximately $800,000 in free rent over the next 24 months. The communities are located in Fort Worth and Frisco and comprise 88 units and 133 beds including both private and companion suite accommodations.

New to LTC's portfolio of operating partners, Koelsch has 60 years' experience in operating seniors housing communities and currently operates 34 independent living, assisted living, memory care and respite care communities in eight states. Our relationship with Koelsch was cultivated over several years during which time we remained in close contact waiting for the right investment opportunity. They represent the type of strong, regional, growth-oriented operator we are focused on building lasting relationship with to enhance our portfolio and foster future growth for LTC.

Regarding our Oregon investment, as Wendy and Pam mentioned, we entered into a real estate joint venture with a new operating partner Field Senior Living to develop a 78 unit assisted living and memory care community in Medford. The joint venture has completed. The land acquisition received the necessary permits and has begun construction with planned completion by the end of 2019. LTC will contribute 95% of the total $18.1 million project cost with an approximate initial yield of 7.65%. The joint venture also executed a purchase and sale agreement to acquire an adjacent 89-unit independent living community currently owned and operated by Fields to create an integrated campus. The acquisition is expected to close in the third quarter.

Of the $14.4 million total acquisition cost, LTC is contributing 80% with an approximate initial yield of 6.75%. This partnership with Field Senior Living is the third real estate joint venture deal we have completed in the past 12 months, demonstrating LTC's willingness to listen to operator's needs and provide creative financing solutions meeting their strategic capital requirements. As a result, we are attracting dynamic new operator relationships, while decreasing the average age of our portfolio by adding newer assets.

Given the current market, we are continually evaluating our portfolio to identify disposition opportunities. Currently we have three signed purchase and sale agreements comprising four older buildings in our portfolio, three skilled nursing centers and one independent living community, with expected closing dates by September 30. As always, there are certain conditions that need to be met proceeding to closing. These three sales are included in our FFO guidance. The expected proceeds are around $25 million, and represent approximately $2.2 million of our annualized GAAP rent. We plan to use the proceeds initially to pay down our line of credit, providing additional balance sheet flexibility. Our expected total gain on sale from these transactions is approximately $16 million.

As noted previously, we have engaged in intermediary to run a process for selling or re-leasing two assisted living communities located in California. We are nearing the end of this process, and anticipate a decision by the end of August.

Now for the portfolio numbers, Q1 traling-12 month EBITDARM and EBITDAR coverage using a 5% management fee, that's 1.44 times and 1.23 times respectively for our assisted living portfolio; and 1.77 times and 1.27 times respectively for our skilled nursing portfolio. As a reminder, these metrics are reported one quarter in arrears. The six basis point reduction from the previous quarter in our skilled nursing portfolio coverage reflects broad industry trends and spans four operating partners, with no single operator contributing to a majority of the decline.

We are seeing some positives in our skilled nursing portfolio, including sequential quarter-over-quarter improvements at two of the four operators, and 8% Medicaid rate increase in New Mexico, which positively impacts two of our operators. Additionally, there is a 2.4% Medicare rate increase beginning in October. Although we cannot say with certainty we have hit the trough [ph], given the EBITDARM coverage for our skilled nursing portfolio of 1.77 times on a trailing 12-month basis, we feel comfortable with our current position.

Now I will turn things back to Wendy for a wrap up. Wendy?

Wendy Simpson
Thank you, Pam and Clint. Staying true to our philosophy, we are supportive partners and patient investors, and have no problem waiting for more rational pricing, the right opportunities and the right regional operators who are a good fit. We maintain a conservative and strategic bias, which has helped us navigate through many different cycles and business environments. And most importantly, through down or challenging cycles, such as the one we're now in, we have used the time to our advantage to build lasting relationships, so that when the market turns we are not only willing participants but are fully prepared to swiftly take advantage of acquisitions and growth opportunities.

As I said at the start of the call, these relationships anchor our business and are absolutely essential for LTC. We are well-funded and intentional, making sure we can generate significant value for our operating partners and our shareholders. And as always, we will continue to drive long-term value through a culture of trust, transparency, and shared success. We're glad that you could join us today. Thank you again.

We're ready for your questions.

QUESTIONS AND ANSWERS

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

The first question today comes from Jordan Sadler with KeyBanc. Please go ahead.

Jordan Sadler
Thank you, good morning. I was wondering if Wendy might be able to run through a little bit more of the portfolio assessment that you're discussing, obviously it's resulting in some sales that were outlined and those will continue. But maybe just a little bit more flesh around some of the parameters that you're looking at. And as it relates to either property type and/or facility age or location, some of the things that are factoring in to your analysis, that would be helpful.

Wendy Simpson
Yes, Jordan, thank you. Primarily we're looking at our operators. We're first looking at the operators relative to growth potential with them. And we're looking at first that, and then we're looking at the older assets, because we think in today's environment with pricing and the appetite for older assets it's probably an opportunity for us to monetize those rather than wait till the end of the lease and then find us in a down cycle where we have an older asset that we don't have quite the advantage of negotiating a new lease. So that's our first cut at it.

And the second cut is looking within the portfolio of operators that we do feel that there's some growth, and just asking them are there older assets or assets that are not part of their strategy that we should look to monetize at this time. So we're not looking at a big portfolio, even though we think we could get a premium for some of the assets that we have. If they are good assets, we have a good long-term lease, it's a good operator, we're not looking to monetize those just to have a gain.

Jordan Sadler
Okay. And then what about the assessment around the operators themselves, existing stable of operators, obviously there are a number on your list and just throughout the industry that keep cropping up, maybe not necessarily in your portfolio but across the space as breaching their leases or having some difficulty on a facility-level basis. Are you re-underwriting the existing stable of operators themselves?

Wendy Simpson
We're not having discussions of re-underwriting any of the leases in any of the operators that are currently under discussion in the industry. We are talking to Genesis, which I think we've discussed in the past about a couple of older assets in their portfolio that we are considering selling, and they're supportive of that. Relative to preferred care, you know that they are still going through their bankruptcies. And they hope to have it completed by the end of the year. So we're re-underwriting that asset. So there are no other operators that have multiple assets within our portfolio that we're looking at pruning any of the assets or pruning the entire investment with them.

Jordan Sadler
Okay. And then just maybe parsing the coverage a little bit and seeing the sequential decline on an EBITDAR basis, I'm looking at the SNF portfolio. I know there's a little bit more coverage on an EBITDARM basis, quite a bit. But are there any other individual operators within there that are causing the more significant decline? You flagged, obviously, Thrive as one of the operators you're offering deferred rent to, but anybody else on the SNF side that's a cause for concern?

Clint Malin
Well, Thrive obviously is on the private pay side, but on the skilled side right now we don't have a specific concern. We're obviously monitoring. It does seem that in different portfolios or different reasons why there's decline. We have seen some positives and hopefully some upticks on this. But we are seeing that what's happening in our portfolio in the coverage decline, that's common among others in the industry. It's not isolated to us; it's not isolated to operator-specific. So I think there's probably some corporate-level distraction that could have some implication on just focus and attention on certain building.

But we're actively monitoring it and don't have specific concern on one over the other, but it is something we're continuing to work with our operators in understanding where their positioning is and what actions are taken to be able to make improvements within the portfolio. And as Wendy's comment said, we're looking at discussions with them about can we pair certain assets from those portfolios that would help them. So that's part of our asset management process.

Wendy Simpson
And the majority of the investments that we have with Genesis is in New Mexico, and so that rate increase has not come through relative to the trailing 12-months of activity. So that's a significant increase in the coverage for Genesis.

Pam Kessler
I just want to clarify for Jordan that Thrive assets are in lease-up, so they are not included in our same-store metrics that we gave in our supplemental.

Jordan Sadler
Right. And I threw them out there just because I think in your prepared remarks you mentioned that you were offering them some deferred rent. And I was just kind of curious if there was anybody else that was on that worry list, if you will?

Clint Malin
There was other companies we've been talking about that. We've been good about that on Anthem, as well as Thrive talking about concerns and challenges that we see. So as we see those, we'll bring those to light in these discussions.

Jordan Sadler
Okay. And maybe one other cut at it, what's the debt service coverage in the EBITDAR coverage?

Clint Malin
For a specific portfolio or—

Jordan Sadler
No, on the SNF side.

Wendy Simpson
Because of our mortgages with Michigan?

Clint Malin
They're included in the SNF coverage.

Jordan Sadler
That's a fixed chart that's included, it's more like a fixed charge coverage?

Clint Malin
Correct. We include the interest expense associated with those loans, plus there's a small principle payment associated with those. And those are both included and applied in—

Wendy Simpson
As if it were rent.

Clint Malin
As if it were rent, yes.

Jordan Sadler
Okay, thanks guys.

Wendy Simpson
Thank you, Jordan.

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

Chad Vanacore
Hi, good morning.

Wendy Simpson
Good morning.

Chad Vanacore
All right, so you're buying two new memory care in Texas. Can you tell us a little bit more about the properties? Are they stabilized, where is occupancy? And then why by more memory care while other parts of the memory care in your portfolio are having trouble leasing up?

Clint Malin
Sure. The properties that we acquired with Koelsch, they still are in the lease-up phase, and that's why we mentioned specifically, we provided some free rent for them to assist them through that lease-up stage. And these are in the Dallas-Fort Worth market. There has been some softness in that market. This has been a relationship that we have been engaged with for a number of years. And this opportunity presented itself, and we feel that we're acquiring it—it's an $189,000 a bed is our acquisition price. We factored in some free rent as part of our underwriting assessment. And we have credit enhancements associated with this. So we think it's a good opportunity and a good relationship that will bring future growth to LTC.

Wendy Simpson
Also, Koelsch is a long established operator, so it's not like some of our newer operators who are seeing a little more soft lease-up. And as we're seeing, I think, and everybody is talking about the fact that new development is down significantly, and so the demographics will just make, I think, assets lease-up a little better. So if it had been a brand new operator who didn't have a great track record we probably wouldn't do that acquisition, but we have a lot of confidence in the Koelsch operation.

Clint Malin
And a strong balance sheet behind them.

Wendy Simpson
Yes, very strong.

Chad Vanacore
All right, thanks. And then just one quick modeling question. Straight line right off in the quarter was pretty low, and then you know, bad was elevated on that. Presumably this has to do with the Sunrise sales. What is expected straight line per quarter from here on out?

Pam Kessler
Yes, you're right, the straight line rents went down this quarter, but it's projected to go back up next quarter due to the pre-rent for Koelsch and for Thrive, deferred rent. But on page 24 of the supplemental, there is, at the bottom, a non-cash revenue component where we give forth our projection of the next four quarters of straight line. Do you want me to go through that or you just want to look at that page?

Chad Vanacore
I'll check it out, Pam, thanks.

Pam Kessler
Okay. Yes, call me if you have any detailed questions on it, but I think it's pretty well-laid out for your modeling purposes.

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

Rich Anderson
Mizuho, but close enough. So, can you give us the coverage, the quasi coverage, I guess, you want to call it on Prestige and what it would be if you took that out of the equation for the overall skill portfolio?

Clint Malin
We haven't given coverage for specific operators, so—

Wendy Simpson
But they're not out of the norm.

Clint Malin
Yes, correct.

Wendy Simpson
So it's not like they're at 2 and everybody else is at 0.98.

Rich Anderson
Are they at 1.9?

Wendy Simpson
Are they between 1.6 and 1.9?

Rich Anderson
Let's put it this way, do you feel like Prestige is distorting the overall skilled coverage or you would say—and maybe you just kind of said this—but you would say it's kind of in the range and so taking it out wouldn't really change much?

Wendy Simpson
That is correct.

Rich Anderson
Okay. And then turning to guidance, I guess, I was a little surprised you raised guidance, I'm happy for it, but when you take into account the dispositions. Well, first question, remind me was the Sunrise sale in your previous guidance?

Wendy Simpson
Yes, it was.

Rich Anderson
Okay. But you still have more dispositions to go. No acquisitions, but just the $25 million that you mentioned that will happen perhaps in the third quarter. So what were some of the forces that offset those dispositions that would normally have a dilutive impact on your guidance?

Pam Kessler
The dispositions that we're looking at the reminder of the year, they are scheduled or we're anticipating them later in the year, and they don't have much impact. Mostly what you're seeing is an increase from the Koelsch acquisition and the Fields acquisition that we have disclosed.

Rich Anderson
Okay. And then along those lines, could you give us any color on pipeline? I don't know if it was mentioned specifically, but how active you are. I know it's not in your guidance right now, but just curious what potential there is to see more in the way of guidance uplift from new deals getting done.

Clint Malin
Sure, Rich. We've given guidance sort of as an active pipeline base. Those are things that we have under our letter of intent or actively pursuing with a likelihood of closing. And as you know by our discussions this year on our earnings calls, we've pursued more off market transactions which take longer to come to fruition. So we're seeing activity. We are actually seeing a few more marketed transactions that we find interesting and from a price point may be feasible for us. So we're seeing a few more opportunities. But at this point we are really more in the process of evaluating and trying to see where those opportunities are. And we haven't pipeline guidance on just general transaction with volume that we're looking at, it’s been more and more focused on having deals signed up on letters of intent. So we're actively engaged I sourcing transactions is where we're at right now.

Rich Anderson
Okay. And then last question, you mentioned the good news with CMS market basket increase and some sort of positive sentiment perhaps hitting the skilled nursing business. Has that altered your balance of what you're looking at, at all from a pipeline perspective, or could you give a sort of frame, what proportion of it is senior housing, what proportion of it is skilled and so on?

Clint Malin
I couldn't give you an exact percentage, but we've been a supporter of the skilled space and we continue to be a supporter for the skilled space. We're really focused on looking on the right opportunities to grow on the skilled side. Right markets, right regional operator, and we just haven't found those opportunities to date, but we are actively looking at sourcing and finding those opportunities in which to grow with the right companies and the right assets.

Rich Anderson
Okay. Sounds good, thanks very much.

Clint Malin
Thank you.

Pam Kessler
Thanks, Rich.

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

Michael Carroll
Yes, thanks. It looks like you guys have done a pretty job leasing up the lease-up pipeline in the completed development project. So I'm kind of surprised that the rent deferral at Thrive. It has looked like that they made pretty good progress too compared to the first quarter. So what's going on with that tenant and why is it missing your expectations?

Clint Malin
There's just been some general softness in the market; you've seen this in different parts of the country and it's something that they have experienced a little stall in a couple of buildings on this. And we've been monitoring them as we've mentioned in the last couple of earnings calls. And with some of that softness we saw the need to help them get through you know, next brief period on the lease-up.

So the other thing is that there are different organizations than, say for Anthem, from a perspective, they have a lot of investments outside of just the LTC relationship. They have equity ownership positions in other buildings. So we feel that we gave them deferred rent on this. So we expect to be paid back on the deferred rent we're giving to them. And we feel they have the capability to go ahead and pay that back. So really it's just bridging a short-term gap for them.

Michael Carroll
Okay. And then can you give us a little bit more details on Anthem, how is the occupancy moving on the completed projects. Have those been holding up? I know there's a couple of projects that were put into the completed lease-up projects that you no longer provide occupancy for. Has that increased back to the 90% level and that's why you stopped providing it?

Clint Malin
As far as not providing the specific occupancy numbers, no, they were flat on certain ones. So we've tried to aggregate that to where they're at on building so they've made progress and try to aggregate more on a holistic basis for the portfolios they've continued to lease-up. We've definitely seen some positives at the Marietta building. I think the traction they've got at Oak Lawn is positive given they've only been open for a short period of time.

Michael Carroll
Okay. And then just a last question from me on the Frontier assets, it looks like occupancy has been kind of holding flat there for the past few quarters. Is that meeting your expectations or how should we think about that?

Clint Malin
We are engaged with Frontier, they have some new leadership in place at that community. And they've had a corporate level focus on that building. So we would like to see it perform better than it is. And I think they're making some appropriate changes to address the operations, it's definitely a competitive market, but through our engagement with them they have the corporate regional focus to make improvements at the community.

Michael Carroll
Okay, great, thanks. Thanks, Clint.

Clint Malin
Thank you.

Operator
The next question comes from Daniel Bernstein with Capital One. Please go ahead.

Daniel Bernstein
Hi, thank you for taking my questions here.

Pam Kessler
Hi, Dan.

Daniel Bernstein
Yes, so on the assets that you're selling, are those at lease coverages or are those included in your lease coverage that you present in the supplemental, and are those coverages in and around your reported numbers or should we think about potential for some lease coverage improvement as you sell assets.

Clint Malin
They are included in our coverage that we provide in the supplemental. They're small relationships. So I wouldn't expect that to move the needle very much on the portfolio.

Daniel Bernstein
Okay. And then you've been doing a significant number of JVs lately. You've had some peers discuss that they're not going to do triple net anymore and maybe do some more joint ventures as well [indiscernible]. So is the movement towards joint ventures something that's been pushed by the operators and it's going to become more troublesome to go ahead and be able to do triple net leases going forward, given operator desires, or it's something that's more from your standpoint that you want to do more JVs?

Clint Malin
Dan, I think it's really situational. Obviously we just did a sale leaseback with Koelsch, so there's still opportunities to do sale leaseback transactions. For us, we really view it as an opportunity and it really gives us flexibility in being able to approach relationships and provide different types of solutions for them that best meets their needs. So this is something we have been actively engaged with the last couple of years on looking at joint ventures, and we've spent time—

Wendy Simpson
The joint venture has a triple net lease involved in it. So it's—

Clint Malin
It's a component of the joint venture.

Wendy Simpson
It's a component of the joint venture.

Clint Malin
So the joint venture really just basically has the operator co-invest and the opco and it really reduces effectively the rent portion that's paid to us through the joint venture. But it's really a good opportunity, and it leads for us to be able to have conversations with operators, that we might not otherwise have conversations with. So it really is a way to open doors and talk with people and companies we haven't done business with before.

Wendy Simpson
Not all operators have had a bad experience with the triple net lease. You have to go back and look at what the asset was sold for and purchased, and what level did they set the coverage when they set the lease payment, and then set the increases. So if you've conservatively valued and had a rational lease rate during the period, then the operator has not been unusually hampered. So the fact that people say, the triple net lease is dead, it is dead if you have over-levered and—

Clint Malin
Monetized.

Wendy Simpson
Over-monetized. So yes, those were going to happen, and they did happen. And so, now everybody is thinking that the triple net lease is an evil way of financing, and nobody can make any money. But that's my opinion.

Daniel Bernstein
Okay. Well said too. I'm not going to dispute you. And just one more question on the Anthem, I think there were some rent that was supposed to kind of pick up in the second-half of the year, it sounds like that continue to be on track but maybe we can just talk about that a little bit, and what you expect in terms of ramp in rent from Anthem in the next couple of quarters?

Wendy Simpson
It did, Dan, you're right. We had disclosed earlier in year that we are expecting $1.4 million of rent in the third quarter, which they are on track for that, and then in the fourth quarter it goes up to $1.5. And we will be meeting with them later in the year, and setting rent for 2019 which once we've done that we will discuss that with you as well.

Daniel Bernstein
Okay. That's all I have. I'll hop off. Thank you.

Wendy Simpson
Thanks, Dan.

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

Todd Stender
Hi, thanks. Just to go back to the Koelsch transaction, how is the rent schedule laid out? It's free for the first two years, does it ramp over time? Just wanted to see how you get to the 7.25 initial cash yield.

Clint Malin
Sure. The free-rent component is available for them to use depending on cash flow of the operation. So it really would be subject to performance in the buildings and what portion they want to dry down. Again that "free rent," there is a cost to that, so it gets added into the lease space upon which rent is paid. So to the extent they borrow or use those funds, it does increase the rent long-term on the portfolio.

Wendy Simpson
But have we pro forma it like the first $800,000 is free—we haven't considered any cash rents until the $800,000 is used.

Clint Malin
Yes, correct.

Wendy Simpson
That's how we pro forma it.

Clint Malin
Correct.

Todd Stender
Okay. But it's still a triple net lease. They're paying all the costs associated with that?

Clint Malin
Correct.

Todd Stender
Yes, okay.

Clint Malin
That is correct.

Todd Stender
And then how about the Oregon facility, so you have the partnership to go into develop the assisted living, but you are committed to purchase the independent living; have you talked about the fundamentals occupancies, rental rates, any other fundamentals with the IL [ph] that you are going to require?

Clint Malin
The IL was really born out of talking to Fields regarding the development of the assisted living and memory care community. The IL is a stabilized property. Fields has been operating it since 2015, probably close to 90% occupancy, and would have probably about a 1.15 times coverage on that building.

Todd Stender
Great. That's all I had, thank you.

Clint Malin
Great, thank you.

Wendy Simpson
Thank you.

Operator
Again, if you have a question, please press star then one. Your next question comes from Karin Ford with MUFG Securities.

Karin Ford
Hi, good morning. I just wanted to follow-up on Dan's earlier question. I know you guys haven't historically been [indiscernible] owners, but given where we are in the cycle and the continuing preference of operators to use that structure, have you started to rethink that at all? Or, are you still firmly in the triple net camp?

Wendy Simpson
We're firmly in the triple net camp.

Karin Ford
Okay, that's simple. And the next question is just on the two properties in California that you said you'll update us probably at the end of August. Can you just tell us are you leaning more towards the sale or towards the re-lease solution on those? And how is pricing coming in on the bids on that relative to what you were expecting?

Clint Malin
We're engaged in community to run process for both options. And we're actively in that process. So, I don't think that it would be prudent of us to have the discussion in a public forum here about which way we would be going on. We are looking both at the lease and sale and what affords LTC the best opportunity out of that. And we do hope to have that decision made fairly soon on that transaction.

Karin Ford
Okay. And then last one from me is you mentioned having the right terms under triple net lease. What's the right escalator in your mind for a, call it a stabilized triple net lease, that you're going to add to your portfolio?

Clint Malin
A lease if it yields in 2% range is probably what makes the most sense for an annual escalator.

Karin Ford
And is that what you've baked into the Texas acquisition?

Clint Malin
Yes.

Karin Ford
Okay, thank you.

Clint Malin
Thank you.

Wendy Simpson
Thank you, Karin.

Operator
The next is a follow-up from Rich Anderson with Mizuho Securities.

Rich Anderson
Thanks. So I just wanted to go back to my Prestige question. I thought I was recalling higher coverage. And when I looked back when the deal was back in 2015, you actually did call it two times coverage back then. Now I know there have been some moving parts since then. But can you provide the roadmap that gets you from that which you said on your call, I believe, two times to where it is today?

Clint Malin
I would say good historical notes. That two times coverage that was prior to us providing the additional $40 million—

Wendy Simpson
Earn out.

Clint Malin
Earn out on that transaction plus there was $12 million of capex that we initially committed in funding on that transaction. And in addition, we committed another $20 million to replace two buildings. So there was lot of incremental fundings that have come on. And there's one building on the replacement side that's still in process, so that was prior to the funding of multiple dollars.

Rich Anderson
Okay, okay.

Wendy Simpson
So while they do these activities generally they have some glitches in operations.

Rich Anderson
Right, right. I remember all those moving parts. I just want to make sure I understood that the two then is, with including all of the moving parts, is now someplace much lower because of those events.

Wendy Simpson
Yes.

Rich Anderson
Okay, thank you. Sorry. Thanks.

Wendy Simpson
Thanks.

Clint Malin
Thank you.

Operator
The next question is a follow-up from Daniel Bernstein with Capital One. Please go ahead.

Daniel Bernstein
Hi, thanks for taking the follow-up here. I know you were very emphatic to Karin's question. No triple net, so I will switch to it looks like you are doing a little bit more development in the latest transaction that you did this second quarter. So has your view changed in terms of how much development you want to do in seniors housing as maybe we hit the kind of trough for fundamentals?

Clint Malin
No, I think developments going to be a smaller component. There's been a cycle that's run. And we're seeing where on a broad based cost of land, labor, material is going up. And I think in general, there's always going to be market specific opportunities. And that's really where we're focused. But in general in today's market the benefit of building compared to acquiring [ph] is not as much of a benefit because what the cost equation is. But there's always going to be unique opportunities in certain markets. So I think we probably do a small amount of it. But it's not going to be anywhere near what we have done in the past.

Wendy Simpson
I don't think we're penciling any development right now, are we? We are not working—we don't have a development.

Clint Malin
Other than the three we have.

Wendy Simpson
Yes, we have announced. Yes, we are not talking to anybody about development.

Daniel Bernstein
Okay, good enough for me. Thank you.

Wendy Simpson
Thank you, Dan.

Clint Malin
Thank you.

CONCLUSION

Operator
This concludes our question and answer session. I would now like to turn the conference back over to Wendy Simpson for any closing remarks.

Wendy Simpson
Again thank you all for spending the time to listen to our comments. We look forward to talking to you after the third quarter, and hopefully we'll have a lot of more interesting things to talk about. Thank you, and have a great day.

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