LTC Properties, Inc.

Fourth Quarter 2018 Analyst and Investor Conference Call

March 1, 2019 at 8:00 a.m. Pacific

CORPORATE PARTICIPANTS

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

Pam Kessler, *Chief Financial Officer*

Clint Malin, *Chief Investment Officer*

PRESENTATION

Operator

Good day and welcome to the LTC Properties Fourth Quarter 2018 Analyst and Investor Conference 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 1 on your telephone keypad. To withdraw your question, please press star, then 2.

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, 2018. 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, CEO. Please go ahead.

Wendy Simpson

Thank you, Operator. Welcome to LTC's 2018 Year-End Investor Conference Call. Joining me today are Pam Kessler, our CFO, and Clint Malin, our Chief Investment Officer. I'll start with introductory remarks and then turn the call over to Pam, who will discuss our financial results, followed by Clint, who will discuss our portfolio, recent activity, and operator performance. I'll end with a brief wrap-up before we begin with questions and answers.

The current real estate cycle has been interesting, to say the least. The continuing massive influx of private equity and other financing sources has, in our opinion, inflated pricing, resulting in lower investment volumes for us in 2018. At this point in the cycle, however, we're starting to see formation of a disconnect between certain sellers and buyers. Private equity is looking for large deals in the private-pay space, and we are beginning to see a decline in their interest in the mid- to smaller-deal opportunities that we expect will cause sellers to start adjusting their pricing expectations.

On the skilled side, there is still a lot of capital moving around, and while we remain interested in investing in SNFs, we are seeing more opportunities in private-pay. We believe LTC is well positioned to capture opportunities created by a shift to a slightly more favorable investment market. Fortunately, our leadership team has been in this business for a very long time, and we've weathered these transitions before. Over the course of many real estate cycles, LTC has succeeded by being patient, and this cycle is no different.

To repeat something I've said before, being a patient capital provider does not mean being stagnant. While Q1 tends to be slower in terms of pipeline creation, we are continuing to build ours with strategic assets where we can grow with our current operators; improve the average age of our portfolio; add new, strong regional operating partners; and expand our existing geographic footprint. We are using our time wisely, maintaining a strong and well capitalized balance sheet, proactively managing our portfolio assets, and strengthening industry relationships.

We are meeting with operators both inside and outside of our current portfolio and educating them about LTC's willingness to provide innovative financing structures, structures that are flexible and tailored to the specific operator's needs. Our ongoing focus on regional operators allows us to better understand how they operate, what's important to them, the decisions they need to make, the challenges they need to overcome to be successful. We believe this focus is what sets us apart, what allows us to be ready and able when an opportunity arises, and what will allow us to continue to drive long-term growth and value.

Before I turn the call over to Pam and Clint, I'd like to provide a brief update on three of our current operators — Senior Care Centers, Thrive, and Anthem. I'll start with Senior Care Centers, which operates 11 skilled nursing facilities for us in Texas. As you know, Senior Care declared bankruptcy in December, and we don't believe they have the ability to emerge from the process as a viable ongoing concern. Given this assumption and acting as good fiduciary stewards, we are proactively negotiating a potential new master lease with a different Texas-based operator familiar with these assets to ensure we are poised and ready to act should the opportunity arise. It is still very early in the process, and any lease transaction with a new operator is subject to bankruptcy court approval.

Next, I'll provide an update on our Thrive portfolio, which includes 395 units across six memory care and assisted living communities. As we previously discussed, Thrive exhausted $1.4 million of deferred rent we provided in the second quarter of 2018, which, based on their projections of lease-up, was well before they were able to stabilize the properties in the portfolio. Thrive short paid their contractual rent in November and did not pay rent in December. We believe the $619,000 of rent is collectable, so we accrued and recorded it in 2018. We have not received payment of January and February rent or of the deferred rent we provided. As a result, we have issued a reservation-of-rights letter to Thrive as we pursue our options related to the non-payment and are no longer accruing contractual rent starting in 2019. I'd note that we do have certain guarantees in place. We anticipate cash rent to be approximately $1 million this year, should these assets remain with Thrive. Annual GAAP rent under the Thrive master lease is approximately $7.2 million, and at the end of the quarter, the net book value of the properties was $81.7 million. We had $4.5 million in straight-line rent receivables, inclusive of the $1.4 million in deferred rent and $5.7 million in other assets on our balance sheet at December 31st. We are evaluating several options related to the Thrive portfolio, which could include ongoing negotiations with them, transitioning some or all of the properties to new operators, selling some or all of the properties, or finding a solution through some combination of these options. As we have done in the past, most recently with Anthem, where we addressed similar challenges, where Anthem has recently turned the corner, I believe we will find a successful resolution that is in the best interests of all parties, especially our shareholders.

I'll finish now with Anthem. We recently agreed to $7.5 million in rent from Anthem for 2019, which is approximately 45% higher than the rent they paid us in 2018. We continue to actively monitor expected ongoing improvements. We will revisit appropriate rent levels associated with these properties in the 2019 fourth quarter. From an occupancy standpoint, the Marietta property is stabilized. Occupancy at Burr Ridge and Oak Lawn grew nicely. Glenview was flat and Tinley Park was down slightly. We are pleased that Anthem met their 2018 rent commitment, but we will continue to closely watch their progress and their ability to meet their new higher 2019 commitment.

Before I turn things over to Pam, I'll provide our guidance for 2019. Assuming no additional investment activity, asset sales, financing, or equity issuances, FFO is expected to be between $3.00 and $3.02 per share for the full year, which reflects a three-cent reduction for Senior Care remaining on the cash basis. Pam?

Pam Kessler
Thank you, Wendy. Revenues for the 2018 fourth quarter increased $1.8 million, primarily as a result of one-time income of $3.1 million resulting from the write-off of a contingent recent [unintelligible] and related earn-out liability pertaining to our master lease with Senior Lifestyle, which I discussed on last quarter's call. This was partially offset by a $1.3 million decrease in GAAP rent due to the non-payment of December rent by Senior Care as a result of their bankruptcy filing. One million of the $1.2 million cash rent is subject to administrative post-petition claims that have priority over general pre-petition unsecured claims. Excluding the effects of Senior Lifestyle and Senior Care, revenue was flat quarter over quarter as increases from investments were offset by decreases resulting from property sold.

[Unintelligible] FFO was 81 cents compared to 77 cents in last year's fourth quarter. Excluding the one-time revenue just described, FFO per share was 73 cents for the 2018 fourth quarter. The change from last year related to the Senior Care bankruptcy and the non-payment of December rent and increased G&A expenses partially offset by a reduction in interest expense.

Net income available to common shareholders increased $10.9 million from the prior year, resulting from a higher gain on sale in the 2018 fourth quarter and a one-time income related to the write-off of the contingent lease incentives and related earnout liability with Senior Lifestyle.

Interest expense decreased $468,000 from the prior-year quarter, due to lower debt balances resulting from scheduled principal payments on our senior unsecured notes and the elimination of the $126,000 quarterly interest expense associated with the earnout liability to Senior Lifestyle that was eliminated.

General and administrative expense increased $558,000, primarily related to performance-based incentive compensation. Last year's G&A amounts were reduced due to the Anthem lease default. We expect G&A to be about $4.5 million per quarter through 2019, or approximately half a million dollars per quarter lower than 2018 due to lower projected performance-based incentive compensation resulting from Thrive.

During the quarter, in two separate transactions, we sold two skilled nursing centers, one in Florida and one in Georgia, for $10½ million, recognizing a gain on sale of $8 million. The properties had a combined gross book value of $4 million, and GAAP rent related to these two properties was approximately $684,000.

2018 was an active year for capital recycling, and although our sales volume was higher than typical, we were net investors in real estate in 2018. We sold ten properties for a combined $95.9 million, recognizing a total gain of $70.7 million. The six senior housing communities and four skilled nursing centers had a combined gross book value of $50.9 million and a net book value of $22.4 million. The annualized GAAP reduction in revenue related to these properties sold was $6.9 million. We used the combined net proceeds of $92.7 million to invest $40.3 million in acquiring three senior housing assets and one parcel of land for development and $14.5 million in two skilled nursing centers that were added to an existing mortgage loan. We also funded $35.3 million in development commitments and $10.1 million in capital improvement projects. This total gross investment of $100.2 million translates into annualized revenue of approximately

$7.5 million, $5.4 million throughout 2019, and an additional annualized $2.1 million upon the completion of development projects during 2019.

While 2018 asset sales were higher than normal for LTC, we currently expect 2019 divestitures to be in a more cyclical historical range. We have provided a graph of historical asset sales on page 11 of our Supplemental, which should give you some color on prior asset sales by year. We will continue to be a strategic seller, identifying opportunities to recycle capital into more productive assets. Clint will discuss our investment activities subsequent to the end of the fourth quarter shortly.

We repaid $8 million on our line of credit during the fourth quarter and subsequent to the end of the quarter, borrowed $26.4 million, bringing the total outstanding on the line to $138.4 million. Additionally, we continued to fund LTC's 19-cents-per share monthly dividend during the fourth quarter and paid $18 million in scheduled principal paydowns on our senior unsecured notes. We also funded $10.7 million under existing commitments for development and capital improvement projects and $834,000 under mortgage loans.

At December 31st, we owned three properties under development, with remaining commitments totaling $25.2 million and two properties under renovation, with remaining commitments of $5.2 million. Additionally, we have remaining commitments under mortgage loans of $17.1 million related to expansions and renovations on eight properties in Michigan and $2 million remaining under a preferred equity commitment.

Our balance sheet continues to provide us with substantial flexibility and the capacity to fund current and future growth initiatives. We have $461.6 million available under our line of credit, $98 million under our shelf agreement with Prudential, and $184.1 million under our ATM program, providing total liquidity of $743.7 million. As always, we will continue to employ a conservative capital allocation strategy. Our long-term debt-to-maturity profile remains well matched to our projected free cash flow, helping moderate future refinancing risk, and we have no significant long-term debt maturities over the next five years.

At the end of the fourth quarter, our credit metrics remained well matched to the healthcare REIT industry average, with debt-to-annualized-adjusted EBITDA of 4.2 times and annualized adjusted fixed charge coverage ratio of 5.1 times, and a debt-to-enterprise value of 28%.

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

Clint Malin
Thanks, Pam. I'll start by sharing progress on a previously disclosed lease transition, a joint venture acquisition, and developments nearing completion. I'll start with the lease transition.

As you may recall, that the leases on our buildings in Bakersfield and Vacaville, California, operated by Brookdale Senior Living, were due to expire on November 30, 2018. We signed a new master lease agreement with an affiliate of Fields Senior Living, to be effective upon issuance of licensure by the State of California, which is anticipated to occur on May 1st. The new master lease provides for a purchase option and includes a $3 million capital commitment from us at a 7% yield. Fields has 12 months from lease commencement to utilize these funds. Until licensure is obtained by Fields, Brookdale will continue to operate the properties under a lease amendment. The annualized GAAP rent for 2019 from these communities, under both leases, is expected to be $2.5 million. Once the transition is complete, our relationship with Fields will include four properties. While lease maturities are a fact of life, we see them as an opportunity to expand operative relationships as we are in the process of doing the Bakersfield and the Vacaville transition to Fields. We can leverage meaningful relationships we've built to quickly fill gaps and transition properties, if necessary, as leases expire.

As previously disclosed, we completed one transaction subsequent to the end of the quarter. We closed a $17 million real estate joint venture acquisition with an affiliate of English Meadows Senior Living Communities. LTC has a 95% interest in the real estate joint venture. English Meadows' Abingdon campus, which opened in 2015, is a 74-unit assisted living and memory care community in Virginia that was 90% occupied at the time of closing. The initial lease rate is 7.4%. The Abingdon community is operated by English Meadows, a new operating partner for LTC. English Meadows was founded ten years ago and operates eight communities across Virginia.

Now I'd like to update you on the progress of communities under development. First, Boonespring of Boone County, a skilled nursing development project in Kentucky, opened and accepted its first two residents in early February. Boonespring, a 143-bed transitional care center, is operated by Care Spring and is part of a four-property master lease.

Next is our Hamilton House project, a 110-unit independent living, assisted living, and memory care development project in Wisconsin that anticipates opening in early to mid-April. The community will be operated by Tealwood Senior Living.

Moving now to the portfolio numbers, Q3 trailing 12-month EBITDARM and EBITDAR coverage, using a 5% management fee, was 1.43 times and 1.21 times, respectively, for our assisted living portfolio and 1.67 times and 1.28 times, respectively, for our skilled nursing portfolio. Thrive has been excluded from our assisted living portfolio numbers, because only one Thrive community would have rolled into coverage this quarter, and, as Wendy mentioned, we are no longer accruing contractual rent starting in 2019.

Coverage in our skilled portfolio increased by 2 basis points over the previous quarter. The skilled operators in our portfolio prepare to transition to the patient-driven payment model in October. Sentiment continues to be positive as to the expected benefits from this change in Medicare reimbursement. Along with the expected positive associated PDPM, we are closely monitoring the current biennium legislative session in Texas pertaining to a proposed provider tax bill that the for-profit skilled nursing industry has long supported. Passage of such a bill would bring needed relief to many operators in Texas and positively impact coverage in LTC's skilled portfolio. The current Texas legislative session concludes in May, and, while passage of the bill is not guaranteed and we are not relying on it, we remain cautiously optimistic.

Before I wrap up, I'd like to briefly comment on our pipeline. As Wendy mentioned, this time of year is generally slow in terms of pipeline growth. However, we are seeing some opportunities for smaller, stabilized private-pay assets where prices have come down a bit. Even though some large deals have been reported recently, we remain focused on select opportunities that have new operating partners and optimize our portfolio. We are maintaining our focus on strategically and methodically identifying quality growth-oriented operating partners and newer assets, but we are pleased to see that pricing is starting to become more realistic. We caution that a gap still remains between what buyers are willing to pay and how sellers are pricing their assets, creating extended transaction cycles. We obviously can't predict when the gap will fully close, but we do feel confident that the transactions now in our pipeline have a strong probability of converting this year.

Now, I'll turn things back to Wendy.

Wendy Simpson
Thank you, Pam and Clint. We believe this year will provide several growth opportunities. Our challenges with Senior Care and Thrive are being addressed and controlled. Investment opportunity has picked up. Marketplace challenges are starting to abate slightly, and the two reimbursement changes that Clint mentioned might significantly benefit our SNF portfolio at the end of 2019 and into future years.

We believe new constructions will slow down with cost headwinds, and occupancy of existing properties will increase. Broken private-equity deals could result in some interesting new opportunities. We will remain optimistic and opportunistic as the cycle runs its course.

Thank you again for joining us today. We are now 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 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 star, then 2.

Our first question comes from Chad Vanacore with Stifel. Please go ahead.

Chad Vanacore
All right. Good morning, all.

Wendy Simpson
Good morning.

Clint Malin
Good morning.

Chad Vanacore
So just thinking about guidance, $3.00 or $3.02, that's a pretty tight range, especially considering all the moving pieces here. Can you share some of the primary assumptions that the collections and the timing of change is there?

Pam Kessler
Yeah, we lowered — the primary change is reducing the Thrive rent, but we've assumed that Senior Care pays the contractual rent through the year.

Chad Vanacore
Okay. And —

Pam Kessler
[Inaudible], a million dollars lower of straightline. [Inaudible] —

Chad Vanacore
All right.

Wendy Simpson
— [inaudible] have to reduce straightline. We'd increased for Anthem, reduced for Thrive, and reduced G&A discussed on the call.

Chad Vanacore
Okay. And then just on the Senior Care part, didn't you mention in the guidance that a [unintelligible] — sorry — drag associated with Senior Care, or did I hear that wrong?

Pam Kessler
No, that's correct. That's in 2018, because we did not record rent in 2018 for December, because they did not pay it.

Chad Vanacore
Okay. So that —

Pam Kessler
[Inaudible] bankruptcy claim.

Chad Vanacore
Okay. Gotcha. And then just thinking about — you've got new developments coming online in the first half of '19. How should we expect rent — incremental rent to flow through to the income statement there?

Pam Kessler
I'm sorry. Repeat the question?

Wendy Simpson
The developments coming online in 2019.

Pam Kessler
Oh.

Wendy Simpson
When will they start — you've got it in the —

Pam Kessler
Yeah. According to the Supplemental we give that — page 7 of the Supplemental.

Chad Vanacore
Yes.

Pam Kessler
The date of the C of O, that's when you should start modeling rent.

Wendy Simpson
We have the rent — estimated rent inception [sp] date.

Pam Kessler
Yeah.

Chad Vanacore
All right, and that's sort of mid-quarter, beginning of quarter?

Pam Kessler
Yes.

Chad Vanacore
You get full rent starting, you know, April 1st and January 1st?

Pam Kessler
For GAAP purposes, yes. The accounting rules require you to start recording rent on a GAAP basis at certificate of occupancy, so those are the dates we laid out. So for the Care Spring property in Kentucky, it will be first quarter of this year, for the property in Wisconsin, it will be the second quarter, and for the property in Oregon, fourth quarter.

Clint Malin
And, Chad, right now everything's on track as far as the development timelines.

Chad Vanacore
Okay. And these things typically, they get push backed, all right. So just one more. In looking at the third quarter SNF coverage in your Supplemental, it looks like trailing 12-month coverage improved sequentially despite occupancy impairments declined. That's counter intuitive. Can you tell me what's behind that change?

Clint Malin
Sure, part of that, Chad, we received — I talked about this previously, about some quality mix indicator payments that one of our operators was expecting in Michigan, and that did actually come through, so that was — it was funded at the end of the fiscal year for the entire amount that applied for the prior fiscal year. So we did see a large pop in that one operator, which I had talked about the last couple of quarters. So that's one reason why you're seeing the occupancy down a little bit but why you saw the coverage slightly go up.

Chad Vanacore
All right. One last one.

Clint Malin
[Inaudible]

Chad Vanacore
— [inaudible], just going back to guidance.

Clint Malin
[Inaudible] going forward as well, so that QMI [phonetic] payment is going to continue going forward into the future. That will just be paid on a monthly basis going forward.

Chad Vanacore
Okay, so it's not an end-of-the-year quality payment. It's — they're going to book it consistently month by month?

Clint Malin
That's correct.

Chad Vanacore
Okay. So going back to guidance, just a — does that include any new investments or acquisition dispositions?

Wendy Simpson
No, it does not.

Chad Vanacore
Okay. All right. I'll leave it at that. Thanks.

Wendy Simpson
Thanks, Chad.

Pam Kessler
Thanks, Chad.

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

Michael Carroll
Yeah, thanks. Just real quick on the guidance numbers, Pam, I guess you said you assumed $1 million of rent from Thrive. Were they scheduled to pay $6 million-plus for rent? Is that correct?

Pam Kessler
In — yes, they were scheduled to pay $7.2 [million] in 2019.

Michael Carroll
Okay.

Pam Kessler
So [inaudible].

Michael Carroll
So then how does the math work if you're only assuming $1 million from Thrive, so that seems to be 15 cents lower off of the current run rate, but then it seems like it's all recovered, so does the new investments and reduction in G&A make enough for that 15-cent shortfall?

Pam Kessler
So GAAP and cash on this particular lease, because they — the escalators are variable, so they are not straight-lined, and there was lease incentives, free rent in the beginning of this lease. The cash rate is actually higher than the GAAP rate. So the GAAP rate is $6.7 [million], so that's what is in guidance.

Michael Carroll
How much rent was recorded for Thrive in 2018?

Pam Kessler
$6.7 [million].

Michael Carroll
$6.7 [million]?

Pam Kessler
Uh-huh.

Michael Carroll
So then you're dropping from $6.7 [million] down to $1 million, which is roughly 15 cents?

Pam Kessler
Uh-huh.

Michael Carroll
So then what's the uptake that gets you back to that $3.00 run rate? Is it just new investments and a reduction in G&A?

Pam Kessler
Yes.

Pam Kessler
And Anthem, an increase in Anthem, yes.

Michael Carroll
Okay.

Pam Kessler
So it's the properties coming online that we talked about and Anthem and then a reduction in G&A. Those are your primary components.

Clint Malin
And that increase in Anthem, you said it's 45% over what it was in 2018, so that's a positive contribution.

Michael Carroll
Okay, great. And then can you talk a little bit about Preferred? I know that in the 10-K, it highlighted that they missed their date to either affirm or reject your lease. What's the thought process there?

Clint Malin
I think it's — you know, right now it's a — Preferred Care has been going through sort of an elongated period. I think they've felt like they would be out of bankruptcy at this point, and they've been working through the transfers with other landlords, which I think they've accomplished. I think they only have two buildings remaining in New Mexico, but they have the lawsuits in Kentucky and the matter with the State Attorney General in New Mexico that's sort of drawn their case out a little bit. And sort of through that process, I think they're trying to evaluate what their post-petition organization looks like after they emerge. So they've continued to pay rent to us. I think they're looking at exiting certain markets, and in those markets, it includes some buildings

in our master lease. So right now we're working with them to see if we can accommodate possibly removing some of the buildings from that master lease. They do want to stay in and have a viable entity coming out of bankruptcy. The good thing for us in working with Preferred Care on this is it gives us an opportunity to reduce our operator concentration, because Preferred Care right now is our sixth largest operator, and we view value in having diversification among our operators.

Michael Carroll
Okay. So I guess the good way to think about that is that they still want to stay in the master lease. Just going forward, is this going to be a few assets you plan on selling and you're going just have higher asset sales in 2019?

Clint Malin
No, I don't see higher asset sales. We might look to sell some. We might look to re-tenant others as well.

Michael Carroll
And would those be done to the similar rental rate?

Clint Malin
We're working through that right now. We would think that the same rate that we would — that's our — that's what our preference would be. That's part of the negotiation as Preferred Care wants to retain some of the buildings, and we're working on that right now. Actually, Wendy and I were in Dallas about two weeks ago meeting with them and walking through what they're looking at from an organizational standpoint and what they want to look like when they emerge from bankruptcy.

Michael Carroll
Okay. Great. And then, I guess, the last one for me. I know that Frontier has had troubles leasing up those two developments, and it seems like those were stabilized this quarter. So what's the occupancy rate, and, I guess, have you seen a pretty good uptick in those trends?

Clint Malin
Well, Clovis — we actually will be making some proactive progress on Clovis. We've seen some lumpiness in the occupancy, as evidenced — we've been monitoring that and talking about it over the last number of quarters. So what we've done, actually, is we've proactively identified a solution for the Clovis properties, and we found a new operator that actually has seen long-term value in that asset, and so we, right now, have — we have negotiated a new lease and a guarantee with another operating company to take over operations of the Clovis community. Right now it's just subject to state approval, which we hope to have any day now, so effectively the lease terms will be on similar terms as Frontier as far as the current cash payment, and we're actually getting a stronger credit enhancement in working with this new operating company, but in exchange for that, we're giving them a purchase option to buy the community between the sixth and tenth lease year upon — from lease commencement.

Michael Carroll
Okay. And then what release rate is that purchase option at?

Clint Malin
I don't have the rate, but it basically would be our gross book plus any investments we make into the property, and then we would retain 40% effectively of the upside. The purchase price would include 40% of upside based on appraised value.

Michael Carroll
Okay. Great. Thanks much.

Clint Malin
We think it's a really strong win/win for us and this new operating company, and, actually, Frontier, who's been managing the community, they've been great to work with. I think this wasn't the right opportunity for them, but they've been engaged in this process and very cooperative, so we appreciate their efforts.

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

Daniel Bernstein
Hi, good morning.

Wendy Simpson
Good morning.

Daniel Bernstein
I wanted to go back to Thrive and if you could talk a little bit about the performance of the properties and which direction you're going. I thought they were maybe hoisting up slowly but still moving in the right direction. Did something change there, and — I guess we'll start there.

Wendy Simpson
Thrive is an opportunity. They've had some challenges with costs, they've had challenges with using agencies. They have a couple of properties that are doing very, very well, like Anthem had a couple of properties, all of their Colorado properties were doing well. They're having challenges in the lease-up of the newer properties. One of the good things about Thrive is that we have — it's not the same as the Anthem in terms of the entire portfolio. We could easily split up Thrive, because they've got one asset in Texas and we have an operator who might be interested in that asset in Texas. The one asset within Thrive's portfolio that is probably more likely to be a sale than a re-tenanting would be in Jacksonville, Florida, and I think we would come out net the same amount of money that we invested in it. But there seems to be a lot of challenges in Jacksonville, in that area of Florida, but the other areas are viable. It's just taking them a little bit longer.

They just had extreme expense variations in terms of controlling those expenses. They've turned their attention to the assets. Another good thing about Thrive is they have assets outside of the LTC portfolio, and we have certain guarantees that support our amounts due from Thrive, so Anthem didn't have that. Anthem only had our assets, so while Thrive is a challenge right now, and we haven't put much in our projections for Thrive, there's every opportunity for us to be able to get more out of the Thrive facilities in 2019. But at this point, we can't promise our shareholders that we'll — we are going to do that, but I think we have a really good opportunity of getting more than what we've got in our projections from Thrive rent.

Daniel Bernstein
So it would be a characterization that they are undermanaging the assets at least from an expense perspective, or they got over their skis a little bit with the more development properties and how fast they grew. Is that the right way to characterize it?

Wendy Simpson
Yeah. If Thrive is listening, we love them as a management team, but they've had challenges, so they've done — you know, they've —

Daniel Bernstein
No, I've met them before, so —

Wendy Simpson
Okay. They've done very well in their development and their turning the properties over to a new owner and participating in the windfall and all of that sort of thing. It's just adding that as — or adding the operating of day-to-day assets hasn't been a real success for them with our assets. I don't know what their entire portfolio —

Daniel Bernstein
Okay. And then the other question I have here is on the SEC, you had previously indicated that when you were negotiating master release rent, a new master lease with a different operator, you got maybe the possibility of similar rents, and I'd go back to December, when in your press release, we had 1.6 times EBITDARM coverage. Has anything changed in your thoughts about maybe being able to get similar rents on these properties if transferred to another operator? And has there been any deterioration in the lease coverage?

Clint Malin
Right now, Dan there has not been deterioration in the lease coverage. We're monitoring it closely. I think in transferring the operations to a new operator, which obviously would be subject to court approval, we don't have a unilateral right to do that, but we are being proactive in trying to position the company to take advantage of opportunities and have a back-up should something happen. We don't think that Senior Care, as an organization as it's structured today, is going to survive the bankruptcy, so we want to be prepared for the alternative.

I think the way to think about rent is there could potentially be possibly some deferred rent, potentially, depending on when the buildings would transfer, possibly, and where performance is at, at that point. That really comes down to what the negotiation is and how we would treat that, but I think there is probably some low-hanging fruit on some of these buildings because of just the focus in Senior Care has been more on corporate events and the bankruptcy, and not as much on driving performance at the facility level. So we think there's opportunity long term if we get a new operator to come in and operate those properties. So a little dynamic in regard to what rent would be, but there is positive cash flow currently on those buildings.

Daniel Bernstein
Okay. And one more question, really going back to the pipeline and originally Wendy's comments on the bid aspect [sp], kind of winding out. What do you think has caused that for private equity in terms to be a little bit more cautious on the smaller mid-sized deals? Is it just they're elephant hunting, has there been any — do you think there's been some pullback in money into the private-equity space such as sovereign wealth money from China, was it the December drop in the stock market? Just trying to understand kind of where those thoughts are coming from.

Clint Malin
I think it's just that there's larger opportunity. There are a lot of transactions that — we're seeing a lot of activity right now on the deal front. We're signing a lot of confidentiality agreements, but we're also being judicious and sticking to our underwriting standards, so we're seeing a lot of deals out there, and so I think there's a lot of things to look at. And I think from a private-equity

standpoint you can do a multiple utility transaction. It's the same amount of work as doing one property, so we're just seeing that interest fall off a little bit in areas that we've been looking. But, still, there are opportunities that we see where we can find where the price and the metrics work, like the Virginia deal that we just closed on. So it's hit or miss, but we're seeing a little bit of disruption on that bid/asked price, and we view that as an opportunity.

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

Wendy Simpson
Thanks, Dan.

Clint Malin
Thank you.

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

John Kim
Good morning. On Anthem, can you just remind us what drove the recovery in operations to get that increase in rents? And also, what is the coverage now on an EBITDAR basis?

Wendy Simpson
We don't give coverage on an EBITDAR basis by lessee, but what's the recovery, is that they have been development properties starting about five years ago, and as they have leased up, they've stabilized operations, so it was a combination of lease-up of assets. Indeed, they did lease up a little later than we had originally underwritten them five or six years ago, but they are leasing up now, and Anthem took some overhead cuts this year at our urging, so their overhead is much more in line with the fact that they're operating 11 properties, so it's a combination of new properties leasing up, Anthem spending less on overhead, and filling up their assets. So we expect that we have four that are still in lease-up, and by the end of the year, we think their rent coverage ratio will be significantly higher than it is in January, February, and for 2020, we expect to have even higher rents from Anthem.

John Kim
Okay. And then on Senior Care, I think you mentioned in your press release back in December, that you were in discussions with another operator for this property, but you also mentioned it in your prepared remarks today, but back in December, you were saying they were on similar terms as a Senior Care lease, and I'm wondering if that was still the case.

Clint Malin
Yes, it is the case. We are still working on that lease. We don't have the unilateral ability without court approval to move the properties, but as a back-up, we've negotiated — the lease terms are very similar. As I just mentioned on one of the other questions about one of the open items would be the rent level as far as is there any deferred rent or not? But currently there is cash flow on those asset sales; that's to be determined, but we're just trying to position LTC to be prepared and have a back-up if the opportunity arises where we can transfer operations to this new organization, which they do have the experience with these buildings specifically, so we view that to be a strong advantage for us.

John Kim
On your acquisition pipeline and focused more on private-pay, stabilized assets, is there anything else you could share as far as what you expect cap rates to be, the [unintelligible] mix and geography?

Clint Malin
What I would say right now, most of what we're looking at is probably private-pay assets. Our focus is on stabilized assets, which is evidenced by the deal we just did in Virginia. Right now we're targeting similar yields to what we got on the Virginia deal, which is around 7¼ to 7½% for private-pay assets that are stabilized. And geography really is — depends, based on the opportunities that present themselves with operators in certain markets, because we've been very focused on building relationships with regionally-based companies, so we are opportunistic in regard to locations.

John Kim
And why do you think cap rates have gone up on stabilized assets? Is there a potential for you to — or a buyer to put into capex on —

Clint Malin
Well, this was an opportunity where we had — it was effectively a sale, a lease-back transaction that the operator effectively co-invested with us on the real estate joint venture, so that led to a unique opportunity where we could come in and price it at that yield and get coverage off of it on a stabilized basis. We're starting to see more opportunities where you can fit these newer stabilized assets into triple-net leases, and the real estate joint venture structure that we've been utilizing helps to lower the lease costs to the operator, where they're getting the return on the — they're effectively lowering their rent cost and giving themselves more flexibility.

John Kim
Okay. That's helpful. Thank you.

Clint Malin
Thank you.

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

Todd Stender
Hi, thanks. And, Clint, just to stay on that theme with the Virginia asset, is it a triple-net lease within a joint venture?

Clint Malin
[Inaudible]. We've co-invested on the real — on the [unintelligible], and then there is a triple-net lease to the operating company, and the principals on our JV partner as well as the opco [phonetic] are common.

Todd Stender
Okay. And do you own the real estate 100%?

Clint Malin
Ninety-five, is our economic interest in the real estate.

Todd Stender
Okay, got it. All right. Thank you. Okay, and then go to the mezz-loan commitment, there's a piece of deferred interest on that. I guess the bulk is cash, but how does that get booked on the P&L, and has it been funded yet?

Clint Malin
It has not been funded yet. We made the commitment in 2018, and right now everything is in line and we expect to fund by the middle of March. It is a mezz investment at 12%, but during the first 46 months it's 8% current pay. There's a strong equity position in front of us with about 30% equity on this development project, so we view this as a unique opportunity to come in and look at a transaction that we probably — of a size we probably wouldn't come in and own 100%, but it's a great way for us to build relationships with operating companies that would be new to our portfolio, and we think with the current pay-piece and the ultimate yield of 12%, it is a risk-adjusted return for LTC.

Pam Kessler
But we'll be booking the 8%, to answer your question.

Todd Stender
Okay. That's helpful. Thank you. And with the ultimate goal of owning or having a seat at the table, that loan-to-own —

Clint Malin
No, this is a little bit of a larger project, so it was the idea of coming in on a risk-adjusted basis at a bite-size investment for us, to get a look at this type of investment and build relationships with companies that are new to our portfolio.

Todd Stender
Okay. That's helpful. Thank you.

Clint Malin
Thank you.

Operator
As a reminder, if you would like to ask a question, it is star, then 1. Our next question comes from Karin Ford with MUFG Securities. Please go ahead.

Karin Ford
Oh, hey, good morning. Just one more question on Senior Care. I know you said it's early in the bankruptcy process, but if the court rejects your leases in the process, how much downtime do you think there could be in a transition, and is there any risk that we could have some downtime in 2019?

Clint Malin
There's always risk of downtime, but the good thing about investing in the State of Texas is the licensure process in the state is a very short timeframe, so being able to transition buildings is landlord advantageous. It's much different than California, like what we're experiencing on the transfer of Bakersfield and Vacaville to Fields Senior Living. So there is a possibility, but I think that it would be — if any, it would be limited.

Wendy Simpson
And even if they do reject our lease, don’t they still have to pay rent until it’s —

Clint Malin
Yeah, that’s correct.

Wendy Simpson
— taken out? And they could say, “Well, we only need to pay economic rent.”

Clint Malin
Occupancy

Wendy Simpson
Yeah. It covers 1.6 times before management fee, so I think we would have an argument in court that our lease rate is a reasonable amount of rent. So, yes, it’s disruptive, and I don’t think we will lose in the transaction. I don’t think we’ll lose GAAP. We may lose — we may delay cash a while, but I don’t think we’ll lose GAAP rent.

Karin Ford
No, that’s helpful. And then, second question, is just on Thrive. I think three of Thrive’s six properties were 2017 transitions from other operators. With now two failed attempts at leasing those — do you want to sell those three, and what do you take away from this from an underwriting standpoint, especially on development?

Clint Malin
Well, actually two of the — you’re correct on timing, and two of the three were transitions from Thirty Point [phonetic] to Thrive. It was the building in Louisville and the one in Jacksonville, which Wendy talked about a few minutes ago. The Jacksonville community is probably a sale for us on that, and it just seems in the Jacksonville market, there’s been a lot of development, and this is going to take a longer period of timeframe for lease-up sale. What we looked at in that specific case as a targeted lease-up was — should have been a longer period of time, and it’s just having the runway to span through that elongated lease-up period, so that’s probably going to be a sale, most likely.

The other building that they opened in ’17 was a building that Thrive actually opened themselves, and we came in at a take-out at certificate of occupancy.

Karin Ford
Got it. Okay. Thank you.

Clint Malin
You’re welcome. Thank you.

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.

CONCLUSION

Wendy Simpson
Thank you and thank you, all, again for joining us for our year-end. We look forward to talking to you in just several weeks about the first quarter. Have a great weekend.

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