LTC Properties, Inc.

1Q 2019 Analyst and Investor Conference Call

Friday, May 10, 2019 at 8:00 a.m. Pacific

CORPORATE PARTICIPANTS

Wendy Simpson - *Chief Executive Officer and President*

Pam Kessler – *Executive Vice President and Chief Financial Officer*

Clint Malin – *Executive Vice President and Chief Investment Officer*

PRESENTATION

Operator
Good morning, and welcome to the LTC Properties First Quarter 2019 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 star key followed by zero. After today's presentation, there will be an opportunity to ask your questions. To ask a question, you may press star, then one on your telephone keypad. To withdraw your question, please press star, then two.

Before management begins its presentation, please 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, Chief Executive Officer. Please go ahead.

Wendy Simpson
Thank you, Chad, and welcome, everybody, to LTC's First Quarter 2019 Conference Call. Joining me today are Pam Kessler, our CFO, and Clint Malin, our Chief Investment Officer. After a few introductory remarks, I'll turn the call over to Pam, who will discuss our financial results and the impact of a new accounting standard. I'll come back with an update on four of our operators and give guidance. Clint will follow with a discussion of our portfolio and operator performance, and then I'll conclude our prepared remarks with a brief wrap up before the question-and-answer session.

Although there has not been any meaningful change in industry dynamic since we last spoke with you in March, we remain optimistic with LTC's ability to capture future opportunities, when a positive market shift becomes more permanent. While we are actively building our pipeline and evaluating multiple opportunities, closing transactions have been slower than we would like as a pricing disconnect remains between buyers and sellers. As long as private equity continues to pour money into the marketplace at what we believe are unreasonable valuations and risks, this discount is likely to continue. However, as we did in 2018, we are strategically assessing this market to monetize some of our properties. That said, we are making good progress in several areas and I believe our current initiatives will allow LTC to build an even stronger portfolio with solid regional operators with whom we can grow into the future.

Now I'll turn the call over to Pam.

Pam Kessler
Thank you, Wendy. Before I discuss our quarterly results, I'd like to explain the impact of recent accounting changes, specifically the adoption of ASC 842 that became effective on January 1st. I'd note that the impact that the new lease accounting guidance reduced the comparability of results between quarters. New lease accounting guidance requires that we record the property tax escrows we collect from our tenants as revenue with the corresponding expense.

Accordingly, first quarter 2019 results include property tax revenue and expense while the prior year comparative period does not. Under the new guidance, straight-line rent is written off to contra revenue rather than expense as under previous guidance. During the quarter, we transitioned the senior living communities operated by Frontier to a new operator and wrote off $1.9 million of straight-line rent related to the terminated Frontier lease to contra revenue in accordance with the new lease accounting guidance.

The new guidance also sets higher collectability thresholds for recording straight-line rent. Under the new guidance, we performed an analysis of the collectability of all rent owed to us on our leases through maturity and determined that it was not 65% to 75% probable that we would collect 90% to 95% or substantially all of the lease obligations due from Anthem, Thrive, Senior Care, and Preferred Care through the end of their respective leases. Accordingly, we wrote off the straight-line rent and lease incentive balances associated with these leases. Further, the new guidance does not provide for general reserves for straight-line rents, so we wrote off our 1% general straight-line rent reserve. These balances totaled $42.8 million and were written off to equity effective January 1st as required by the transition guidance.

Under the new lease accounting guidance, collections of rent subsequent to the straight-line rent write-off are considered recoveries of amounts previously written off and are recognized as a contra expense rather than rental revenue until the cumulative amount of the recovery recognized equals the amount of the straight-line rent written off. Thus, we recognized $9.6 million of cash rent received from Anthem, Thrive, Senior Care, and Preferred Care as contra expense on the income statement.

Now, I'll get into our quarterly results. Revenues decreased $6 million this quarter compared to a year ago, due to $9.6 million of rent received from Anthem, Thrive, Senior Care, and Preferred Care recognized as a contra expense rather than revenue. A $1.7 million reduction due to property sold in 2018, $1.9 million of straight-line rent written off due to the Frontier lease termination, and $1.6 million due to Thrive's failure to pay first quarter 2019 rent.

These decreases were partially offset by $4.3 million in property tax revenue, $2.3 million in revenue from acquisitions, completed development in capital improvement projects, $777,000 in increased rent from Anthem, Preferred Care, and Senior Care, and $1.4 million in deferred rent received from Thrive. During the first quarter, Thrive paid $1.4 million of deferred rent and $740,000 of past due rent that was accrued in outstanding as December 31, 2018. Additionally, they paid property tax impounds for the first quarter but have not paid rent to date in 2019.

NAREIT FFO was $0.75 per diluted share in the 2019 first quarter compared with $0.75 last year. Excluding one-time items, FFO was $0.77 per diluted share this quarter compared with $0.75 last year. The increase was primarily due to higher contra expense, representing recoveries of amounts previously written off and a $454,000 increase in unconsolidated joint venture income resulting from additional interest related to the payoff of a mezzanine loan on a property in Fort Myers, Florida, as well as lower interest expense partially offset by lower revenues.

Net income available to common shareholders was flat compared to the prior-year first quarter due mainly to changes in revenues, contra expense, and unconsolidated joint venture income previously discussed, and lower interest expense offset by property tax expense. The contra expense line item titled Recoveries of Amounts Previously Written Off represents $9.6 million of cash rent received from Anthem, Thrive, Preferred Care, and Senior Care that under the new lease accounting guidance is considered a recovery of straight-line rent that was written off as of January 1, 2019, in accordance with the transition guidance.

Interest expense decreased $362,000 from the prior year related to the repayment of debt under our senior unsecured notes. In the 2019 first quarter, as I mentioned, we recognized $4.3 million in property tax expense in accordance with the new lease accounting guidance. In the prior year, property tax escrows were not required to be recognized as income and expense. G&A decreased $226,000 due to lowered accrued incentive compensation partially offset by an increase in performance-based stock compensation vesting, legal expense, and higher payroll taxes in 2019. We are currently estimating G&A to be in the $4.5 million to $4.6 million range per quarter through the remainder of this year.

During the first quarter of 2019, we funded a mezzanine loan that was originated in the fourth quarter of last year for the development of an independent living, assisted living, and memory care community in Atlanta and acquired an assisted living and memory care community in Abington, Virginia. Clint will provide additional details shortly. We also funded $7.2 million in development and capital improvement projects on properties we own and $1.5 million under mortgage loans.

During the first quarter, we received $3.4 million related to the prepayment of the mezzanine loan I discussed earlier, which was accounted for as an investment in unconsolidated joint ventures. We borrowed $34.9 million under our line of credit to fund acquisitions and capital commitments, paid $4.2 million in scheduled principal pay downs on our senior unsecured notes, and continue to fund LTC's $0.19 per share monthly dividend.

At March 31st, we owned two properties under development with remaining commitments totaling $15.3 million and two properties under renovations with remaining commitments totaling $4.9 million. We also have remaining commitments under mortgage loans of $15.7 million related to expansions and renovations on seven properties in Michigan and $1.7 million remaining under a preferred equity commitment.

Our balance sheet remains strong and provides us with substantial flexibility and the capacity to fund our current and long-term growth initiatives. We have just over $453 million available under our line of credit, $98 million under our shelf agreement with Prudential and $200 million under our ATM program, providing LTC with total liquidity of approximately $751 million. We expect to remain true to our conservative capital allocation strategy, which has served us well. 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 first quarter, our credit metrics remained well-matched to the healthcare REIT industry average with debt to annualized adjusted EBITDA for real estate of 4.4 times and annualized adjusted fixed charge coverage ratio of 4.9 times and a debt to enterprise value of just over 27%.

Now I'll turn the call back to Wendy.

Wendy Simpson
Thank you, Pam. I'd like to provide an update on Senior Care Centers, Thrive, Anthem, and Preferred Care, and then discuss our updated guidance. We've had a lot of work to do and progress is being made.

I'll begin with Senior Care Centers, which is working its way through the bankruptcy court. The court recently approved an extension through July 2nd for senior care to affirm their leases and also approve the transfer of a number of properties owned by other landlords out of the portfolio. Should we get our properties back, we are prepared to quickly transition them to a different operator. Senior Care is current on their 2019 rent and escrows with us and has been able to make some property improvements during the ongoing bankruptcy process. They are also preparing for the transition to the PDPM model. Coverage in the Senior Care portfolio was flat quarter-over-quarter on a trailing 12-month basis.

Regarding the Thrive portfolio Pam mentioned, Thrive caught up on their 2018 rent as well as the differed rent owed to us. While Thrive has paid their 2019 escrows with us, they have not paid any rent thus far in 2019. As such, we issued notice of default and demand for payments to Thrive, and its guarantors on April 5th, which requires payment of approximately $2.6 million of past-due rent through April. We are continuing to evaluate all options related to the Thrive portfolio and recently engaged a broker to market our Jacksonville, Florida building. We have entered into LOIs with two strong regional operating partner candidates for the other five properties. We will keep you apprised of our progress.

Anthem has paid monthly rent and escrows to date in 2019. For our forecasting, we have projected Anthem's 2019 rent to be approximately 45% higher than in 2018. We plan to revisit appropriate rent levels associated with the portfolio as we go forward. Any revision in contractual rent cannot realistically be calculated until all of the properties have been stabilized for a period of time, so it will likely be late in 2020 before we have greater visibility on stabilized rents going forward for Anthem.

Preferred Care operates 23 properties for LTC. We continue to work cooperatively with them to accommodate Preferred Care's interest in reducing the number of LTC-owned properties under their operation. As a result, we are pursuing a sale initiative to market the majority of LTC properties currently operated by Preferred. The remaining properties could continue to be operated by an affiliate of Preferred Care, released to another operator, marketed for sale, or a combination of these options.

Before I turn the call over to Clint, I'd like to provide an update on our 2019 guidance. Assuming no additional investment activity, asset sales, financing, or equity issuances, FFO is now expected to be between $3.02 and $3.04 per share for the full year, which is $0.02 higher at the midpoint than our prior guidance, due to our implementation of the new lease accounting standard ASC 842.

Over to Clint.

Clint Malin
Thank you, Wendy. I'll begin my remarks with the previously-disclosed lease transition related to our Bakersfield and Vacaville, California buildings, formerly operated by Brookdale Senior Living.

Our new master lease agreement with an affiliate of Fields Senior Living became effective May 1 upon license issuance by the State of California. A master lease with Field provides them with 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. The annualized GAAP rent for 2019 from the Bakersfield and Vacaville communities is expected to be $2.6 million. Our relationship with Fields now includes four properties.

We have also transitioned two senior housing communities, which total 180 independent living, assisted living, and memory care units in Clovis, California, from Frontier Management to Generations. The new master lease with 10-year term with an annual initial cash rent of $2.9 million is the same as the rent we were collecting from Frontier. The master lease rents are fixed for five years and include certain credit enhancements. The agreement also includes a purchase option for generations, which can be exercised beginning in 2024. Based in Portland, Oregon, Generations is a regionally-focused senior living company operating five communities in four western states.

During the quarter, as previously announced, we closed a $16.9 million real estate joint venture acquisition with an affiliate of English Meadows Senior Living Communities, a new relationship for us. LTC contributed $16 million in cash for a 95% interest in the real estate joint venture. The initial lease rate of 7.4% and the JV is consolidated on our books.

English Meadows' Abingdon Campus was opened in 2015 as a 74 unit, assisted living and memory care community in Virginia. Also, this quarter, we funded a $6.8 million mezzanine loan that was originated in the fourth quarter of 2018 for the construction of Corso Atlanta, a nine-acre campus in the Buckhead area of Atlanta that includes 82 independent living units, 75 assisted living units, 26 memory care units, and 21 independent living cottages. The campus, which is expected to open in the winter of 2020, will be operated by Atlanta-based Village Park Senior Living, a new operating partner for us. Five-year mezzanine loan bears interest at 12% with 8% current pending during the first 46 months of the loan, with the balance accruing to the note and 12% current pay thereafter.

Now I'd like to update you on the progress of communities under development. As discussed on our last call, Boonespring of Boone County, a skilled nursing center in Kentucky, opened and accepted its first two residents in early February. Occupancy as of this week is 45%, which is ahead of pro forma. Hamilton House, our 110 unit independent living, assisted living and memory care development project in Wisconsin opened a few weeks ago and is at 10% occupancy as of this week. The community is being operated by Tealwood Senior Living.

Our remaining development project, Weatherly Court, a 78 unit assisted living and memory care community in Oregon is expected to open on schedule later this year. The community will be operated by Field as part of a larger campus. The campus already includes a building with 89 independent living units currently operated by Field of which we invested through a real estate joint venture in August of 2018.

Moving now through the portfolio numbers, Q4 trailing 12 month EBITDARM and EBITDA coverage using a 5% management fee was 1.42 times and 1.21 times respectively for our assisted living portfolio, and 1.79 times and 1.29 times respectively for our skilled nursing portfolio. Thrive has been excluded from our assisted living portfolio numbers, as we stopped accruing contractual rent for Thrive starting in 2019. Our coverage is stabilized and there are several industry events that could help drive coverage going forward, including PDPM, which takes effect October 1, and the proposed provider tax bill in Texas that could be a positive for the for-profit skilled nursing industry and for LTC.

A similar provided tax bill was recently signed by the governor of New Mexico. It takes effect July 1 and includes a fairly substantial rate increase. While the bill needs to go to CMS for approval, there are no anticipated issues. Given the current approval process, actual payments are not expected until later this year or early 2020 but will be retroactive to July 1.

Lastly, I'd like to briefly comment on our pipeline. As Wendy mentioned, while we are patiently waiting for pricing to rationalize, we are working on building our pipeline through an ongoing focus on strategically identifying quality growth-oriented operating partners and newer assets. We are continuing to see some opportunities for smaller, stabilized private pay assets where prices have come down a bit and have also found some interesting opportunities to invest in new skilled nursing centers that would meet our underwriting standards and strategy of attracting new operating partners, should we decide to pursue them.

Now I'll turn things back to Wendy.

Wendy Simpson
Thank you, Pam and Clint. We are continuing to execute on our plan: identifying strategic assets for purchase or sale, successfully resolving current portfolio challenges, and building and maintaining a portfolio with embedded growth characteristics that will serve LTC well into future years. When the current cycle turns, I am very confident we will be ready to move quickly with a solid foundation based

on a more diversified asset and operator base. While the pace of change is fairly slow at the moment, we remain on solid ground. I am very optimistic about our future and our ability to build sustained value for LTC, our partners, and our investors over the long-term.

Again, thank you for your participation today. Chad, we are now ready to take questions.

QUESTIONS AND ANSWERS

Operator
Thank you. We will now begin the question-and-answer session. To ask a question, you may press star, then one on your telephone keypad. If you're using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star, then two. At this time we will pause momentarily to assemble our roster.

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

Chad Vanacore
Thanks. So Clint, you mentioned that maybe pricing is not in the LTC zone currently. What kind of pricing, and maybe shift in pricing, have you seen over the past few months? And then, what do you think the right underwriting standards on skilled nursing are for you right now?

Clint Malin
Well, I'll take your last point on skilled nursing, we still have looked to underwrite skilled nursing at a 1.5 times coverage with a 5% management fee. So that continues to be a requirement for us. We also are looking to invest in newer properties, and we have seen over the last year have been a lot older properties on the market and it has not been our focus, so that's where we'd be skilled.

Now pricing in general, as Wendy mentioned in her prepared remarks, we've seen things stay in the market a little bit longer, because of the disconnect on pricing, and we've seen some buildings come back around for the second or third time. So given that, we're just being very selective and patient, waiting for the opportunities for some of those pricings to drop. We found some opportunities like the Abingdon Campus in Virginia where we found a unique opportunity with a regional-based operator, a newer property that was stabilized.

Chad Vanacore
All right. And then, just thinking about coverage on your overall portfolio, how should we expect coverage to shift over the next 12 months versus where they have been?

Clint Malin
Well on the assisted living portfolio, I would think that would maintain fairly stable is what we've seen. We haven't seen lot changes on that.

On skilled, we have had a decline over the last year or so, but with the change in PDPM, the provider tax I mentioned in New Mexico and some increased performance, we hope that will start to trend upward as we go forward into 2019 and 2020.

Chad Vanacore
All right. Thank you.

Clint Malin
Thank you.

Wendy Simpson
Thank you, Chad.

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

Michael Carroll
Yes, thank you. I guess, Wendy or Clint, I wanted to see if we can talk a bit about Senior Care Centers? I believe Wendy said that coverage ratio was flat compared to the prior period. Can you tell us what that coverage ratio is?

Clint Malin
We talked about it on our last call. It's about in the 1.25 range.

Michael Carroll
And that's EBITDAR?

Clint Malin
EBITDAR after a 5% management fee.

Michael Carroll
Okay. And how has that portfolio been performing over the past few quarters? I guess, can you give us some idea of where occupancy is trending in skilled mix and if there's any issues with labor trends?

Clint Malin
It's been fairly stable. So, really no noticeable difference on the last few quarters, so from occupancy to mix been pretty stable.

Michael Carroll
Okay. And then can you talk a little bit about Preferred? I know you're working with them potentially selling some assets and/or releasing those assets. I guess how is that going to work within the master lease? Do you have like a rent credit already kind of decided for the proceeds of those potential sales? How are you working through that?

Clint Malin
I mean that's what we have to work through with Preferred Care. If we sold majority of the assets and had a few remaining, we'd have to negotiate what that ongoing rent would be for those properties that would remain in the portfolio if it remains with Preferred Care.

Michael Carroll
Okay.

Clint Malin
So that will be to be negotiated.

Michael Carroll
Okay. And then I guess, finally as you're looking at the current issues with Thrive, it's pretty good that they paid the rent back for 2018. I guess what's the expectations for 2019? Have they given you any reasons why they haven't paid the 2019 rents yet?

Clint Malin
It's a function of cash flow at the communities. I mean that's the main driver right now and why they haven't paid the rents to us in 2019.

Michael Carroll
Okay. Are you still recording $1 million of GAAP rent from Thrive in 2019? Is that still the expectation?

Pam Kessler
No, we're not currently recording any rent from Thrive for 2019. We have in our guidance $1 million more towards the back half of the year for that portfolio.

Michael Carroll
Okay. So no rents being recorded in 1Q and 2Q and maybe you have $1 million in the second half of 2019?

Pam Kessler
Correct.

Michael Carroll
Okay, great. Thank you.

Clint Malin
Thank you.

Operator
The next question comes from Rich Anderson with SMBC Nikko. Please go ahead.

Rich Anderson
Thanks, good morning. So just to close a loop on Thrive, you mentioned just $1 million in your guidance, which is no change, but you also talked about this $2.6 million past due rent through April that you're sort of taking a shot at. Can you explain is that upside then to 2019 if you were able to pull that off?

Pam Kessler
So, the $1.4 million that we received this year, because of the new accounting guidance, it is showing as rent. It's in that contra expense line item, recoveries of past amounts written off. And that is part of the $0.02 increase in guidance is including that revenue. I think Rich is asking, and welcome back, Rich, I think Rich is asking the default note that—

Clint Malin
Yes, so Rich, on the $2.6 million for the first four months, this is part of the negotiation that we're working through with Thrive on this transition. And, we have guarantees associated with this lease and obviously don't want to negotiate in public and admit something that we're working through with Thrive in regard to how we would resolve that.

Rich Anderson
All right, but if you're successful, then there would be upside to FFO that's not in guidance right now?

Pam Kessler
That is correct.

Clint Malin
That is correct.

Rich Anderson
Okay, just a couple of items here. Pam, you said there was a loan payoff. I think you said $3.4 million. Where's that in the income statement?

Pam Kessler
On consolidating joint ventures.

Rich Anderson
Okay. So it's not explicitly—excuse me?

Pam Kessler
I'm sorry. So going forward, that line item will be about $400,000 to $500,000 less with a pay-off.

Rich Anderson
Okay. Okay, good. All right, and then, Clint, you mentioned a mezz loan origination in the first quarter, but I don't see it listed on your investment table on page 5.

Clint Malin
Well, it originated in 2018.

Pam Kessler
Yes, last year.

Clint Malin
So, it was funded in this year, but originated last year. The last on the loan origination list on the Atlanta, Georgia, location.

Rich Anderson
Got you. Okay, thank you very much. And then last one for me, obviously, this lease accounting is kind of goofy, it's the best word I can come up with—but no fault of your own. But the $9.6 million of sort of carved out contra revenue or expense or whatever you call it, how repeatable is that, in terms of going forward as we think about setting up our numbers for the rest of the year? Are you basically taking the $42 million write-off that you mentioned and just biting into that as you collect rent? And so, we'll have a repeating line item there now for the rest of this year?

Pam Kessler
Yes, that is exactly correct. The one-time item in there is Thrive's payment, the $1.4 million.

Rich Anderson
Okay.

Pam Kessler
And since they are not paying right now, I wouldn't expect that to go forward. But all those operators are on a cash basis. So as we collect the cash, their rent will be reflected in that contract expense line item.

Rich Anderson

All right, all right. But once you get to the full $42 million, does that say that's the end of the leases and you kind of start over again, because you'll get quickly the $42 million at even a pace less $1.4 million?

Pam Kessler
Yes, that is correct. And it actually it's only the straight-line portion that we wrote-off that is in there. So that's $31.5 million. And currently, if everybody is paying like they paid this quarter, we get there by the end of the year.

So let's talk the happy dance, which is we have new operators in the Thrive properties, and Thrive is not paying us back rent anymore. So the new operators rent will go up into the rent line.

Wendy Simpson
Exactly. That goes back up to revenue; that is correct.

Pam Kessler
So that makes it even more clear for everybody, yes.

Wendy Simpson
So yes, clear as mud.

Pam Kessler
And the same with Senior Care. If we get the properties back and …

Wendy Simpson
They only relate to these operators.

Pam Kessler
Right.

Wendy Simpson
So, to the extent that these properties go to new operators under a new lease, that revenue is reflected back up in rental income.

Rich Anderson
Okay. And then Wendy, you're speaking as if converting the Thrive assets to another operator or other operators is close to very likely or something like that. I mean, how would you describe that transition?

Wendy Simpson
Yes, we do have the LOIs and we [audio disruption] and so things are going well but you know how things go. The transfer agreements and getting licensure and all that sort of thing is very labor intensive.

Rich Anderson
And so, of all those four, only Thrive is the one that's not current on the rent. Is that correct?

Wendy Simpson
Yes.

Rich Anderson
Okay, all right. Thanks so much.

Wendy Simpson
Thanks, Rich.

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

Todd Stender
Thanks. The two facilities in Clovis, if I have them right, are they the Carmel Villages, those two assets?

Clint Malin
That's correct, Todd.

Todd Stender
They look like they were stabilized just last year. Can you kind of describe what prompted the transition and maybe how those are performing?

Clint Malin
I think they were stabilized by our definition of rolling in to stabilized because the amount of time that lapsed. They were still a lag on our overall occupancy at those communities and Frontier had some challenges. I mean, they helped work with us on this; they have focuses elsewhere. And we had found a different operating company to come in and see an opportunity, the Clovis community, so we were successful in transitioning to another operator who we think will be able to drive growth in occupancy.

Todd Stender
So, no change in rent, right, same rental rate. It was just the purchase option. Was that kind of a sweetener to just get a new operator in there at the same rate?

Clint Malin
The rent is fixed for five years, but the initial rent is same as we had with Frontier. The first option was a sweetener, but we got some increased credit enhancements currently on the short-term for that. So it was a win-win for, I think, LTC, Generations, and Frontier, and it gives us the opportunity to work with Generations who we've been talking to you for a number of years and hopefully, we see more growth opportunities moving forward to Generations.

Todd Stender
Okay, thank you. And then the recently developed SNF in Kentucky with Carespring, so that was kind of the only reference I had to see how long it takes a SNF to maybe to lease-up and that took about 19 months. Can you describe or maybe talk about the lease-up period to achieve stabilized occupancy for this latest one?

Clint Malin
We're looking at 18- to 24-month period on lease-up, but as I mentioned in my comments, they're actually ahead of budget right now and as of this week, they're 45% occupancy at that nursing center. We're excited about the traction that Carespring has been able to get. They are a strong regional operator in that marketplace, have a lot of relationships with hospitals and managed care providers, and they've done a great job in leasing up that property, ahead of pro forma currently.

Todd Stender
And there was—I don't have in front of me; I probably should. What's that lease-up expectation or the yield, I should say? Is that 8.5? Do I have that right?

Clint Malin
Yes, that's correct.

Todd Stender
Great, and thanks. And then last one, the facility in Virginia you just acquired, is that a triple net lease? I know you talked about a joint venture; you've got the bulk of the investment there, about 95%. Can you talk about the ownership structure there and what prompted the JV?

Clint Malin
Sure, no problem. It is a triple net lease between the operating company and the real estate joint venture. Our real estate joint venture partner is a common ownership interest, [indiscernible]. So this was a situation where the operator was in a lease with another capital provider and they funded some operating losses to start up the building. So basically, we've been able to credit that funding they had on the start-up of the operating losses to actual value on the real estate side.

Todd Stender
All right, great. Thanks, Clint.

Clint Malin
Thank you. I appreciate it.

Operator
The next question will be from Daniel Bernstein with Capital One. Please go ahead. Please go ahead, Daniel. Perhaps, your line is muted on your end.

Daniel Bernstein
Yes, I was muted so I'll say good morning again. I don't have much I just wanted to ask about Thrive. What gives you confidence that when you transition to other operators that those operators are going to be able to generate more cash flow and rent than what the properties are doing now? Is there something specific with the operators in terms of maybe regional concentration or something else that would give you confidence that those assets can do better than what they're doing now?

Clint Malin
Sure. I think that's a great question, Dan, thank you. The Thrive portfolio right now is spread out pretty diversified on a geographic basis and this included—because we put some of the thirty point buildings into the Thrive portfolio. So, we found some regionally-based operators that we think will be better focused geographically on this, on the portfolio, and Thrive is obviously still more in the start-up phase. They've done a lot of development projects and the operating companies that we're working with, they have existing seasoned operations. So we think it will be good for their portfolio, and they just have a more stabilized platform to work from.

Daniel Bernstein
Okay. In terms of the actual pipeline that's out there, it didn't sound like cap rates have moved any higher to meet your investment hurdles. I guess you're still finding plenty of private equity out there. I just wanted a little bit more color on maybe the types of assets that you're seeing, the price points and maybe whether it's leaning more towards seniors or skilled. I know this is all in one question but are you seeing any value-add opportunities as well?

Clint Malin

I would say, Dan, more of the opportunities we're seeing on the private pay side than skilled. As I mentioned in my prepared remarks, we have identified a skilled opportunity that would be newer properties, which we find very interesting, but majority what we're seeing is on the private pay side, anywhere from one-off assets to some portfolios. There is a combination of value-add but on the value-add, people are looking for pricing that is based on stabilized as opposed to value-adds. So that's what we're seeing.

Cap rates still with private equity, as Wendy mentioned in her comments, is still very strong. And since we're focused on investing on a triple net basis as opposed to a RIDEA structure, where the cap rates are compressed in the six to sevens, it's hard to make that work with coverage at our lease rates to meet the house.

Daniel Bernstein
Okay, that's all I have. Thank you.

Clint Malin
Thank you.

Operator
Again, if you have a question, please press star then one.

The next question comes from Karin Ford with MUFG Securities. Please go ahead.

Karin Ford
Hi, there. Good morning. I wanted to ask about potential disposition cap rates. I guess you're not collecting rent on Jacksonville currently, so no cap rate there. But on potential asset sales from the Preferred portfolio, what should we expect, just a range on cap rates?

Clint Malin
We're running through that process right now, so that we have packages out. It's hard to give an exact cap rate right now on where that will end up, but we have packages out and waiting for offers to come in the next probably 30 to 45 days in that portfolio. So, we can provide an update on what we're seeing on the next call.

But, right now, what we're seeing in general, the pricing has been pretty strong on yield assets and so we're hopeful that we'll come across this strong number. We've looked, at least with Preferred Care assets, there's nothing new and we're looking at selling these assets. We actually approached Preferred Care a number of years ago prior to them filing bankruptcy and even during the course of bankruptcy to strategically work with them on recycling capital and selling assets back to them. So when it comes to the Preferred Care portfolio, it's something we've been looking at for a number of years.

Karin Ford
And how big could the disposition volume be later this year?

Clint Malin
It would [audio disruption], so I can't give that number right now but we do have, as Wendy mentioned, the majority of Preferred Care portfolio that will be on the market. And then we also have the Jacksonville community, which you mentioned that's being marketed.

Karin Ford

Okay, great. And last question, just on the Wisconsin development that opened, you said it was 10% occupied. It looked like you deferred the rent inception from 2Q 2019 to 2Q 2020. Can you just talk about that?

Pam Kessler
We did. It's related to the new lease accounting standard that requires an assessment of a 65% to 75% probability that you'll collect 90% to 95%—

Wendy Simpson
If you can mathematically speak that out.

Pam Kessler
—yes, of all the cash flows through maturity of the lease. And, given that that is a property in lease up and we don't have visibility into the exact date of stabilization, we have decided that we will not report straight-line rent on that property until we have that collectability certainty through the end of the lease, which I would imagine at stabilization we could probably be more prepared to make that assessment. So during the lease-up period, we will not be recording straight-line rent on that.

Wendy Simpson
Can I, excuse me, Karin. We were getting clarification on 842 all the way up. So, if we decide Tealwood, we can start doing straight-line rent in 2022, we pick up all the prior straight, so all of a sudden we get this big shift —

Pam Kessler
Yes, as it's currently written.

Wendy Simpson
Yes. I'm not sure how well it was thought through because common sense would say that you would straight-line from that point that you determined future revenue was collectable. But as the rule is written, you go back and recapture all of that straight-line rent so that would be a, enormous pickup. That makes no sense.

Pam Kessler
I just wanted to clarify that because —

Wendy Simpson
I don't write the rules. Yes, right because it's so clear yes. I suspect given the difficulties the REITs have had in implementing the new lease accounting standard and kind of the things that have cropped up, I think the law of unintended consequence, I suspect a flat FASB will be issuing clarifications on certain things, because this was not clear, a lot of ramifications of implementing all parts of this new rule.

Karin Ford
And just to clarify, it was always intended in that deal that Tealwood would not start paying cash rent until stabilization or you were just going to be booking straight-line?

Wendy Simpson
They have a certain amount of deferred rent credits.

Karin Ford
Okay.

Wendy Simpson
I mean that's in almost all leases. They don't start paying day one, you have a certain amount of free rent and deferred rent. And so under the old guidance, we would have been recording straight-line rent at C of O. That's what we always did; under the old guidance that's what was prescribed.

Karin Ford
Got it. And so there's no change to the agreement you had with Tealwood on that front?

Wendy Simpson
No.

Karin Ford
Okay, great. Thanks.

Operator
The next question is a follow-up from Rich Anderson with SMBC Nikko. Please go ahead.

Rich Anderson
Thanks. Sorry. I think there's a 90% to 95% chance I'm having a cocktail tonight. I just have one question, follow-up, Pam, you mentioned some amount of one-time-ish in the $9.6 million. Is there any one-time-ish-type of number in the property tax that you carve out now?

Pam Kessler
No, there's not. And it's $1.4 million that's in the recovery that contra expense line item; that's the Thrive deferred rent that we received this quarter. That I'm not anticipating us getting that again; we've actually called it a non-recurring item on our FFO reconciliation. So everything else should be, all things being equal, to this quarter should be similar, absent that.

Rich Anderson
Right, right. So property tax will just kind of grow as they normally would?

Pam Kessler
Yes, property tax will be a recurring item. I don't see FASB changing their mind on that one.

Rich Anderson
All right, thanks very much.

CONCLUSION

Operator
Ladies and gentlemen, this concludes our question-and-answer session. I'd like to turn the conference back over to Wendy Simpson for any closing remarks.

Wendy Simpson
Thank you, Chad, and thank you, everyone, who has listened to our comments, and we look forward to updating you as we approach the end of the second quarter. Have a great day and a great weekend.

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