LTC Properties Inc.

Second Quarter 2019 Analyst and Investor Call

August 9, 2019 at 8:00 a.m. Pacific

CORPORATE PARTICIPANTS

Wendy Simpson, *Chief Executive Officer*

Pam Kessler, *Chief Financial Officer*

Clint Malin, *Chief Investment Officer*

PRESENTATION

Operator
Good day and welcome to the LTC Properties Second Quarter 2019 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 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 that this event is being recorded.

I would now like to turn the conference over to Ms. Wendy Simpson, Chief Executive Officer. Please go ahead.

Wendy Simpson
Thank you, Operator, and welcome, everyone, to LTC's 2019 Second Quarter 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; then to Clint, who will discuss our portfolio, operator performance, and the pipeline. I'll come back to conclude our prepared remarks before the question-and-answer session.

LTC has made significant progress in resolving the challenges we've discussed. We are confident that at the end of the year, the challenges under our control will be behind us, putting LTC in a great position to devote more focus on future growth from a base of a strengthened portfolio. I'll provide brief updates on Senior Care Centers, Thrive, Anthem, and Preferred Care. I'll end my comments with guidance.

I'll start with Senior Care Centers, which is the one issue over which we have the most limited control, as they continue to work through the bankruptcy process. Senior Care Centers recently filed a motion to assume the LTC lease, and we filed an objection shortly thereafter. In the interim, Senior Care Centers remains current on their 2019 rent and escrow amounts. Coverage in the Senior Care portfolio was essentially flat on a quarter-over-quarter, trailing 12-month basis.

Moving to Thrive, the entire portfolio has been successfully transitioned. As previously disclosed, we transitioned three of the six properties on June 1st and completed the transition of two additional properties on July 1st. The final property has been transferred August 1st, and Clint will talk more about this transition later.

Now as to Anthem, their operations continue to improve, and they are meeting our increased rent expectations as reflected in our 2019 guidance. As we have said before, we have not appropriately established formalized contractual rent levels associated with the Anthem portfolio going forward, until we can realistically calculate rent once all of the properties have been stabilized for a period of time. As a result, it will likely be late next year before we have greater visibility on future stabilized rents.

I'll finish my portfolio discussion with Preferred Care, which operates 23 properties for us. As discussed last quarter, we have been working to reduce the number of LTC-owned properties under their operation. We are in active negotiations for all of these properties. These negotiations continue to include both possible sales and leases.

Before I turn the call over to Pam, I'll discuss guidance for 2019, which we are maintaining at $3.02 to $3.04 for the year. Although we are receiving higher rents from the transitioned Thrive properties sooner than originally anticipated, as well as income from new investments, we are lowering our projections for income from unconsolidated joint ventures due to the non-accrual status of our preferred equity investments that Pam and Clint will discuss in their comments. Additionally, the timing relative to transitions around Preferred Care assets is not yet certain. While we have not included any sales assumptions in our portfolio guidance, it is possible that we will sell some or all of the Preferred Care portfolio prior to year-end. As we will have more visibility into the timing of net sales proceeds and/or future rents from this process next quarter, we are postponing an update to guidance until that time.

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

Pam Kessler
Thank you, Wendy. Since our last earnings call, the FASB has allowed two approaches for recognizing recoveries of previously written-off straight-line rent under the new lease accounting guidance. Accordingly, we no longer show contract expense for recoveries of previously written-off straight-line rent. All such recoveries are in rental income, which increases the comparability and transparency of our results.

Revenues increased $4.8 million for the 2019 second quarter compared with a year ago. $3.9 million of the increase was due to property tax revenue recorded in accordance with the new lease accounting guidance that requires us to record the property tax escrows we collect from our tenants as revenue, with a corresponding expense. Accordingly, 2019 revenue includes property tax income, while 2018 does not. The remaining $900,000 increase is due to revenues from acquisitions, mortgage originations, completed development projects and capital improvements, increased rent from Anthem and a decrease in lease incentive amortization, partly offset by decreased rent from Thrive in 2019 and properties sold in 2018.

NAREIT FFO was 75 cents per diluted share for both the 2019 and 2018 second quarters. Net income available to common shareholders decreased $48.3 million from the prior-year quarter due to a higher gain on sale of $47.8 million in last year's second quarter, a decrease in income from unconsolidated joint ventures of $598,000, $592,000 higher depreciation expense, and $194,000 higher transactions costs, partially offset with a $900,000 increase in revenue previously detailed.

Income from unconsolidated joint ventures decreased $598,000. $77,000 of this decrease was due to a mezzanine loan that paid off last quarter, and $521,000 of the decrease was due to a preferred equity investment converting to non-accrual status.

In the second quarter, an affiliate of Senior Lifestyle did not make the full contractual preferred return payments to us and became 60 days past due. During the third quarter, we've received most of the remaining preferred return we had accrued, but as yet, we have not received second quarter amounts due, so they remain on a non-accrual basis. Clint will provide more detail on this investment.

In the second quarter, we recognized a $500,000 gain on the receipt of escrow deposits related to the 2018 sale of six senior housing communities previously operated by Sunrise. Both interest expense and G&A were comparable between the two periods. We currently estimate that G&A will be in the $4.6 [million] to $4.7 million range per quarter through the remainder of this year.

During the second quarter of 2019, we funded $7.5 million of additional proceeds under an existing mortgage loan with an affiliate of Prestige Healthcare secured by two skilled nursing centers totaling 205 beds in East Lansing, Michigan. The additional proceeds bear interest at 9.41% for two years, increasing 2.25% thereafter. We also funded $6.9 million in development and capital improvement projects on properties we own, $781,000 under mortgage loans, and continued to fund LTC's 19-cents per share monthly dividend for a total of $22.6 million in dividend payments.

At June 30th, we owned one property under development, with remaining commitments totaling $10.2 million, and two properties under renovation, with remaining commitments of $4.6 million. We also have remaining commitments under mortgage loans of $14.9 million related to expansions and renovations on seven properties in Michigan and $1.7 million remaining under a preferred equity commitment. Subsequent to June 30th, we borrowed $12 million under our line of credit and repaid $8.5 million in scheduled principal paydowns on our senior unsecured notes.

In keeping with our philosophy, we are maintaining a strong balance sheet to provide us with ample flexibility and capacity to fund current and long-term grown initiatives. We currently have $441.1 million available under our line of credit, $105.5 million under our shelf agreement with Prudential, and $200 million under our ATM program, providing LTC with total liquidity of approximately $746.6 million.

Our long-term debt 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 second quarter, our credit metrics remained well matched to the healthcare REIT industry average, with debt-to-annualized-adjusted EBITDA for real estate of 4.5x and annualized-adjusted-fixed-charge-coverage ratio of 4.8x, and a debt-to-enterprise value of 27.1%.

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

Clint Malin

Thank you, Pam. I'll begin my discussion with the Thrive portfolio. As Wendy mentioned, the entire portfolio has been successfully transitioned, with the final community in Jacksonville transferring operations to Affinity Living Group on August 1st. Affinity now operates two properties owned by LTC. The Jacksonville property, a 60-unit memory care community, was leased to an affiliate of Affinity under a new ten-year lease. The new lease provides the lessee 12 months free rent, increasing to $450,000 in year two and $600,000 in year three and thereafter. In year two, the lessee has the option to defer rent in an amount not to exceed $150,000. Rent may increase subject to a contingent escalation formula commencing in year three and annually thereafter.

Next, I'd like to update you on the progress of our newly developed and still-to-be-completed communities. Boonespring of Boone County, a 143-bed transitional care center in Kentucky, is now up to 67% occupancy as of July 31st, which is ahead of projections and is up from 45% as of our last quarterly call. Boonespring opened in February of this year.

Hamilton House, a 110-unit independent living, assisted living, and memory care community in Wisconsin is now at 16% occupancy as of July 31st, up from 10% as of our last call. Hamilton House opened in May of this year.

Weatherly Court, a 78-unit assisted living and memory care community in Oregon, is still under construction and remains on track to open later this year.

The preferred equity investment on non-accrual status Pam includes two locations in Arizona. The first location is a 28-acre campus in the Phoenix Metro Area with 432 units offering independent living, assisted living, and memory care services spanning three buildings. The second location is an assisted living and memory care community in Yuma with 148 units. LTC entered into this investment with an affiliate of Senior Lifestyle in 2015, and LTC's investment balance as of June 30th is $24.3 million. The two locations are under a letter of intent, with a likely closing expected to occur sometime towards the end of the year or in Q1 of 2020. From the net sales proceeds, LTC expects repayment in full of the $24.3 million investment. Based on forecasts of net operating income for the remainder of 2019 provided by Senior Lifestyle, we anticipate additional income to be paid to us in 2019 of approximately $600,000, but, given the non-accrual status, our guidance does not assume any such additional income.

Moving on to the portfolio numbers, our coverage remains stable. Q1 trailing 12-month EBITDARM and EBITDAR coverage, using a 5% management fee, was 1.43x and 1.21x, respectively, for our assisted living portfolio and 1.77x and 1.28x, respectively, for our skilled nursing portfolio.

Now I'd like to briefly comment on our pipeline. We have identified a few interesting opportunities, primarily where we can strategically add quality and growth onto the operators and improve the average age of our portfolio. We currently have two signed purchase agreements totaling approximately $38 million. One is for the purchase of a newly constructed 90-bed skilled nursing center in the Kansas City market that is 90% occupied and is operated by Knight Medical Resorts, a new operator for LTC. This transaction is expected to close in the current quarter. The other is for the acquisition of a land parcel and development of a new 90-bed skilled nursing center also to be operated by Knight in the same market. The land parcel acquisition is expected to close this quarter, with groundbreaking shortly thereafter. Completion of the project is slated for the fall of 2020.

Both of these transactions were off-market deals sourced through a long-standing relationship we've built with Avenue Development, who will be handling the development and construction of the new property. Avenue is a well-respected, full-service development company that focuses on healthcare and senior living.

We are reviewing other opportunities as well, spanning acquisitions in real estate joint ventures, primarily in the assisted living and memory care space, with operators new to LTC. We will update you as our activities progress.

Now I'll turn things back over to Wendy.

Wendy Simpson
Thank you, Pam and Clint. Coming back to my opening comments, we have made significant progress in resolving the portfolio issues we have faced. I'm very proud of our team, who has helped bring these issues to the solutions, while also remaining focused on continually positioning LTC for future value creation.

We are continuing to successfully execute our plans and are confident that the current portfolio challenges under our control will be fully resolved by the end of this year or early next year. At the same time, we have been working toward building a more diversified asset and operator base and positioning LTC to deliver long-term and sustained growth.

Thank you for joining us today. Operator, we are now ready to take 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. At this time, we will pause momentarily to assemble our roster.

And our first question comes from Jordan Sadler of KeyBanc Capital Markets. Please go ahead.

Katie
Hey, guys, good morning. This is Katie on for Jordan. I appreciate all the color you guys gave us on your portfolio, but I wanted to touch on; I think you guys had some Brookdale renewals coming up next year if you guys could offer any additional color on that? Thank you.

Clint Malin
Hi, good morning. This is Clint. The current term for the Brookdale leases expires at the end of 2020, and Brookdale is not yet in the renewal window. That would open up the first part of 2020, and, given the performance and coverage, our expectation is that they would extend the lease to a [unintelligible] term.

Katie
Thank you.

Clint Malin
You're welcome.

Operator
Our next question comes from Chad Vanacore of Stifel. Please go ahead.

Chad Vanacore
Hi, good morning.

Wendy Simpson
Good morning.

Chad Vanacore
All right. Now that you've transitioned all your Thrive, they had owed you some past-due rent. Were you able to collect any of that, or do you expect to collect any of that in the future?

Clint Malin
Well, Chad — this is Clint —they owed us rents from 2018, which we did collect; and 2019, they did not pay rent in 2019. To facilitate the transition of the properties to new operators, we provided a note to them to assist in some of those transition costs. We have guaranteed and secured interest over payment of those funds and which we've made the line of credit available. At this point, we feel confident we'll be able to collect on those amounts that are due us on the note relating to the transition.

Chad Vanacore
Okay. Excellent. And then at a property that you transitioned in the past six months, how are they faring so far under their new operators? There was Frontier, there was a few with Thrive, there's some here or there, but, in general, what's the direction should we expect the NOI to really be a slog [ph] for, the next 12 months, or have some shown improvement on a short-term basis?

Clint Malin
Some have been stable, improving. There's been some decline in others. It's just been a little bit of a disruption when you have a transition, but the operators we brought in for these communities were excited about the opportunities, and I think that it takes a while to change culture and, to build a presence under that brand in the marketplace. We feel confident that the operators that we're working with that have now taken over those communities, will be able to make progress. How much time it will take is to be seen, but we've been encouraged by people's interest in these communities, and we think over time it will grow.

Wendy Simpson
I think basically, Clint, the operators that are now in the transitioned properties are better capitalized than Thrive, and they have a base of debt. The most challenged property, as you get into it, was Jacksonville, and we gave a year's worth of free rent, and I expect that that will do very well. The operator, Affinity, is a very well-known and established operator, and they're very excited about having that property, I think we are very comfortable with the operators that have transitioned. In fact, the people who took over the bigger box [ph] from Brookdale, had some deferred rent opportunity, and this current period, they haven't used that deferred rent, that's doing better.

Chad Vanacore
All right. And, Wendy, just on Jacksonville, why did you end up keeping it rather than — or why did you end up re-renting it rather than selling it?

Wendy Simpson
Yeah, the prices we were getting were not indicative of the value of the property because of the feeling that we were, up against a wall. And everything that came in relative to the market in Jacksonville and the growth in Jacksonville and all of the forward-looking information was very positive, we decided that, for our future portfolio, it made much more sense for us to keep it and get the right operator in there. That's why we did it. It wasn't an easy decision. I mean, it's easy to say, let's just take the loss and walk away, but it was just such a badly-run property that we had a lot of faith in the market and the property.

Chad Vanacore
All right. Thanks for taking the questions.

Wendy Simpson
Sure.

Operator
Our next question comes from Rich Anderson of SMBC. Please go ahead.

Rich Anderson
Good morning out there.

Wendy Simpson
Good morning.

Rich Anderson
On Thrive, can we aggregate this all up? I tried to do the math. It looks like the new cash rents, you know, once you get to the cash-paying story for all six, is, call it $3.5 [million] to $4 million per year. I don't know if I got that right. I did it quickly, but I think that's right, and does that compare to cash rents prior to all this sort of starting, of $7 million? Could we say that the change from pre- and post- transitions with $7 million, is $3½ million in annual rent?

Clint Malin
Good question, Rich. Right now we're phasing in rents on the property, when we get to the third year, we're at rents of about $5.2 million compared to the $7 million with Thrive, but that does not include the percentage rent that we have on one of the buildings that we transitioned to Veritas, plus the other two buildings with Veritas, which are assisted living and memory care properties — one in Georgia and one in South Carolina, It's a two-year lease for getting everybody to reset rents at that point in time. And it really was borne out of looking at could the operator reduce costs on those buildings? And we thought they should be able to reduce costs and use this solution for us, and Veritas was entering into the two-year lease, and then, for us, appropriate rent, once they've been able to operate the communities and make appropriate expense reductions at the time, we're hopeful that $5.2 million will increase going into year three after we can lease up the rents hopefully on the two buildings that are in the two-year lease with Veritas.

Rich Anderson
Gotcha. That's helpful. Thanks. On Anthem, the big story there is 45% increase in rents this year, and now, you have to wait it out to see what a real stabilized rent will be, as you discussed, Wendy, but I'm curious, is the bent towards rent going up or down versus what you see today?

Wendy Simpson
Oh, it will go up.

Rich Anderson
Okay.

Wendy Simpson
It will definitely go up. They're beating their projections. They're beating our projections, definitely, because we cut their projections in order to establish rent, but they are beating their projections, which were higher than ours. We have a lot of hope relative to the Anthem properties.

Rich Anderson
I figured that was the answer, but you didn't explicitly say it, I figured I'd give you a chance to do that, so you're welcome.

Wendy Simpson
Thank you. Thank you very much. I'm printing the questions for next quarter.

[Laughter]

Rich Anderson
On the preferred equity issue, does the $600,000 that you're not assuming from the sales over and above your investment, that is tethered to the fact that it's on non-accrual status. The impact on guidance has nothing to do with the $600,000; correct?

Wendy Simpson
Well, it kind of does. If we put the $600,000 in guidance, we'd be up another 2 cents, but we don't have it in guidance.

Rich Anderson
Okay. Maybe I'll take that offline, because I understood that to be a sales proceeds, but maybe I'm misunderstanding that?

Wendy Simpson
No, no, no. It is. It's how much interest they can pay on the $24 million balance for this quarter.

Rich Anderson
Oh, okay.

Wendy Simpson
Based on the projection.

Clint Malin
[Inaudible] the remainder of the year.

Wendy Simpson
Yeah.

Clint Malin
[Inaudible]

Wendy Simpson
Yeah, for the remainder of the year, right.

Rich Anderson
And so — oh interesting -

Clint Malin
[Inaudible]

Rich Anderson
— it's a $600,000 —

Clint Malin
[Inaudible]

Rich Anderson
Gotcha, $600,00 interest that is not in guidance now?

Wendy Simpson
Correct. Correct.

Rich Anderson
Okay, thank you. Thanks for that. And then, lastly, I heard you say that you used the line of credit to pay off principal balances this quarter. Is that common practice, or were all the moving parts from things going on, did that require you to go and do that to make those commitments?

Wendy Simpson
Well, I mean, cash is fungible. We use cash to pay our development commitments, pay for developments we have undergoing and renovations, you could say we use cash to do that and pay down debt. I mean, it wasn't a one-for-one. I know that's not a common practice.

Rich Anderson
Okay.

Wendy Simpson
If you look at the cash flow statements, the most important statement in the financials, and look at the cash flow statement, I assume we had investments, quite a few investments.

Rich Anderson
Okay.

Wendy Simpson
Previously, we had borrowed for the investments, and we used our free cash flow to pay down our debt.

Rich Anderson
Yeah, I understand. Okay, I just wanted to make sure I understood. Thank you very much. That's all I've got.

Wendy Simpson
Thanks.

Clint Malin
Thank you.

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

Daniel Bernstein
Hi. Good morning.

Wendy Simpson
Hi, Dan.

Daniel Bernstein
I don't know how much you can talk about Preferred Care, but I was trying to get a sense of — at this point, whether you have any kind of idea of the split of what you might sell versus what you might release.

Clint Malin
I think — Dan, this is Clint — I'd say the majority of the portfolio is probably likely to be sold, as we've indicated on last quarter's call. After being involved in the process and getting offers and the majority is likely to sell. Things could change. I mean, in the case of Jacksonville, we just never know what transpires out of this, but it's likely the majority would be sold. Preferred Care has indicated they'd like to stay in a few of the properties, and we're looking at the best option available for LTC, whether that's leasing those buildings to Preferred Care, another tenant, or selling. We're actively engaged in the process and trying to bring a conclusion to it as quickly as possible, and we think on next quarter's call we'll be able to provide that to you.

Daniel Bernstein
Okay. Okay. I'd appreciate that. And then on the pipeline, it seems like you have some level of investments that are picking up. Can you talk a little bit about that activity in terms of are you seeing your flow come in that you're evaluating, the quality of the assets, the pricing of the assets? I'm just trying to get a sense of where your investment level might go, because in the past, you've alluded to pricing not being where you want it to be and quality not being where you want it to be. I'm just trying to understand if something has changed in terms of your investment pipeline.

Clint Malin
I think we're being very selective, Dan, on what we invest. Pricing is still very strong, a lot of interest from private equity, we're looking at finding unique opportunities such as the opportunity we found with Ignite to invest in newer scaled nursing as well as the development project. And we are seeing a few swap [ph] opportunities from a price point on the private-pay side that we are opportunistic about that we could convert to transactions, but it's trying to find needles in the haystack and that are priced appropriately, and that's been a challenge as we've talked about throughout the year so far.

Wendy Simpson
I think, Dan, what we have seen recently is that we've seen older properties, not ancient properties, but older properties built in the '90s, where to buy them and to bring them up to a standard that our operators and we would like, we generally have to add a capex component to our price. And we're finding that some of the other buyers are buying and operating them as they are and for the next five years or so getting the cash flow that they can.

I think what we're finding out in our underwriting is that, we are looking at putting cash in, in addition to our purchase price, and might be not making the final cut for people who are just willing to take them the way they are and operate them for the current cash flow. That's, one of the things that's hurting our opportunities. We are finding opportunities from other REITs who are looking at their portfolio and finding one or two assets that they might not want. It's not that they don't want to keep them; it's just that doesn't fit their profile, and we're finding some smaller operators who these assets fit nicely into their portfolios.

That's a source of acquisitions that we hadn't really seen in the past, but it's not a huge amount of assets that we're looking at, but I'm very happy with the ones that we are looking at, and I think they would be really good additions to our portfolio.

Daniel Bernstein
Okay. And you have a number of turnaround assets in transition in your portfolio now, but on some other recalls, we've heard opportunities in value-add, and you alluded to that, where you take an asset, you put capex in, you think it could be a viable asset. How much risk do you want to take on a value — on value-add and turnaround today, given the perspective that seniors housing or skilled nursing fundamentals might [unintelligible] in the next couple of years? Do you want to take — would you want to take on any value-add or additional risk, or would stable assets be preferred at this point?

Wendy Simpson
Well, Pam says that we only have $746.6 million to take risk. And I would say, virtually, zero of that, would I — that's not true. If we found an opportunity with a really established operator, we would do that, but to in this environment, fund another Anthem or something like that, it just wouldn't be in our wheelhouse. We kind of are with the Ignite. I mean, we're going to build a property with Ignite, but we've already seen a property that we were going to buy from them — it's already 90% full. It's a high-end rehab sort of resort community, and building one with them is a development type of thing, but, no, I don't see us putting $50 million to $100 million in a property that we're hoping will turn around by putting another $5 million into it. Right now we are seeing some, not a lot, but a lot of — some stabilized -- whatever we're buying now other than the Ignite thing is stabilized and cash flow positive.

Daniel Bernstein
Okay. Appreciate that. I'll hop off. Thank you.

Wendy Simpson
Thanks, Dan.

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

Todd Stender
Hi, thanks. Back to the transitioned portfolio, is it Veritas? Are they the ones taking over the Georgia and South Carolina properties? I know it's got a two-year lease.

Clint Malin
Correct, Todd.

Todd Stender
Okay. That's —

Clint Malin
Yeah, I'll take that one. Todd, they also took over a building in Texas, which we've added to their master lease, which includes other properties they operate for us in Texas.

Todd Stender
Okay, that's going into a master lease, I guess the Texas one, but how does a two-year lease work? Was this your call, was it theirs, was it a combination? How does that —

Clint Malin
That was a combination between us. Again, the occupancy was strong at these communities. It was really a cost issue. We felt the cost on the Thrive operation was higher than it probably

should be, and Veritas was certain they could drive down the costs as quickly. The idea of having a two-year lease really gave both of us a [unintelligible] to look at this, and given the chance to get in and view what their stocking ratios are, where salaries are, make an assessment of where they feel they could operate long term, Veritas there were basically two new communities that we've been involved in, either by a CFO or developed with [inaudible]. They were encouraged. Vertias was encouraged and excited about the buildings and their locations, just really looking at trying to reduce the costs, and that was a decision that we corrected and to be able to look at selling [unintelligible] rents long term. Given the rents I discussed already on the call, we want to obviously make sure that we can get an appropriate return on this, we thought it was in our best interest to be able to let Veritas get in and establish their operating model and then assess what the appropriate rent should be on those two buildings.

Todd Stender
Do you have any operating expense exposure on this, or this is all triple net?

Clint Malin
Triple net.

Todd Stender
Okay. And they can defer some of the rent. Do you book it all upfront? How does that work?

Pam Kessler
No. No, they're not deferring any rent, not on that one, no.

Clint Malin
They are — on [unintelligible] we can — we do give them a [inaudible] —

Pam Kessler
A hundred, yeah. Yeah. Oh —

Clint Malin
And we give them a small amount of deferred rent, just to get through the transition and get started, there's a little bit of deferred rent on those two buildings.

Todd Stender
Okay, got it. Thank you. And then can we hear about Trilogy Management? We know Veritas, but I don't think we know Trilogy, if I have that right.

Clint Malin
Trilogy is a fairly large operator based in Louisville, Kentucky, of which one of the buildings that we have leased to them is located in Louisville, and then the other building was in the Cincinnati market where they have a strong presence already, Trilogy is a sizable operator, both in skilled nursing and senior housing properties. That was an ideal set-up from a presence standpoint, where they're already in the marketplace. They needed buildings, and it's an organization that we have talked with over a number of years to look at investment opportunities, and it just happened this would be the right opportunity for them to come in, and we felt confident with their knowledge of the local markets, that they could drive performance and improvements at these two communities.

Todd Stender
All right. Thank you. And just the last question, with the loan that you're making, the mortgage loan, it's at 9.4%, it's got escalators on it. How long is that going to stay outstanding? Just with interest rates so low, how long do you project that to be outstanding?

Clint Malin
Todd, these loans are the ones at Prestige Healthcare, which are on properties located in Michigan, given Michigan reimbursement. Most investments in Michigan are done via a mortgage as opposed to a triple-net lease. These mortgages, as we've said in the past, embody many elements of a long-term lease, the duration on this is approximately a 30-year term, and it's similar to all the other loans we have with Prestige.

Todd Stender
Got it. Thank you, Clint.

Clint Malin
Thank you.

Operator
Again, if you have a question, please press star, then one. And our next question will come from Michael Carroll of RBC Capital Markets. Please go ahead.

Michael Carroll
Yeah, thanks, and I appreciate your comments on the investment activity, and I know that LTC typically is pretty conservative on their underwriting, and that's what makes it a little bit more difficult to acquire assets, because you're looking for the right deal. I mean, is the competitive landscape getting more difficult to find those types of deal in this marketplace? I guess how are you looking at that?

Clint Malin
Sure. We talked about during the course of this year, it is very competitive, and I think we've seen where it is more challenging to grow it, and we've made a decision not to be aggressive at this point in time to overpay for an asset. We've been actively engaged in finding unique opportunities like we have with Ignite, but it's a very, very competitive marketplace today.

Michael Carroll
Yeah, and then how are you thinking about, I guess, Wendy's comments earlier about picking some portfolios or maybe a few assets from other REITS? Is that the transition-type opportunity, where you'll be buying the assets and transitioning the operations to one of your existing operators?

Clint Malin
Yes, correct.

Michael Carroll
Okay. And then how do you underwrite the types of deals? Is it that the operator is currently in that specific market. and that's how you can get comfortable about their ability to do that?

Clint Malin
Exactly. It's finding operators that have a presence in the existing markets, where they see an opportunity where we can partner with them.

Michael Carroll
And do you typically get better valuations from those types of deals? I'm sure the competitive landscape for those projects are not as steep.

Clint Malin
I think on those types of deals, the seller will look at what the execution risk is, and if we have a relationship with an operator, we have a lease in place, then, obviously, we're a non-capital provider that doesn't have to have a financial contingency, that's an enticing part of sellers looking at trying to mitigate their risk in actually closing deals. Just like, we're looking on selling buildings within our — we're looking at maybe not the highest dollar but the best execution, and I think that we provide that to some of the other larger REITs that are looking to, potentially, at selling assets.

Michael Carroll
Okay. And then I guess the last one for me, just talking about Senior Care Centers, and I'm not sure how much or how much you can really mention, but, what's the next steps, if you're filing your motion to object to a Senior Care's wanting to affirm the lease? What's the outcome there, or what should we be looking for?

Clint Malin
Well, as Wendy mentioned in her comments, it's a situation where we have the least amount of control, and as we found out bankruptcies, it doesn't always make the most business sense as far as the process, the duration, and decision that the courts make. The main concern that we have in looking at the Senior Care Centers' potential reorganization, is just understanding who is that management team that has continued to operate those buildings if they're successful in being able to emerge from bankruptcy? That's one of the biggest, challenges that we have looking forward at this.

But if Senior Care Centers are really successful in emerging, and, assuming our lease by which we have objected to that, we would be able to get paid our rent that we have not recorded for the month of December of 2018, we're positioned right now — we have another operator that we've been working with that's prepared if we can get court approval to transition those buildings to another operator. We recognize that it's subject to court approval, and we'll have to wait and see, but we have objected, as Wendy mentioned, through that lease assumption in this court process right now, and the date in which the motions are assumed as scheduled now to be heard has been moved to August 30th, we'll see how things pay out on August 30th when that motion is heard in court.

Michael Carroll
Okay. Great. Thanks, Clint.

Clint Malin
Thank you.

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

CONCLUSION

Wendy Simpson
Thank you, Andrea. We look forward in the third quarter to having more updates about Preferred Care and, hopefully, Senior Care Centers also and look forward to talking to you then. Thank you very much for joining us today. Have a great day.

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