LTC Properties, Inc.

3Q19 Analyst and Investor Call

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CORPORATE PARTICIPANTS

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

Pam Kessler - *Executive Vice President, Chief Financial Officer and Secretary*

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

PRESENTATION

Operator
Good day, and welcome to the LTC Properties Third 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 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 note 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. Please go ahead.

Wendy Simpson
Thank you, operator, and good morning. Welcome everyone to LTC's 2019 third quarter conference call. Joining me today are Pam Kessler, our Chief Financial Officer; and Clint Malin, our Chief Investment Officer.

LTC is positioning itself for future success by overcoming recent partner challenges, providing creative financing solutions to take advantage of pipeline opportunities and identifying dispositions that strengthen our portfolio by removing non-strategic assets and diversifying partner concentration. Today, we will discuss our progress.

I'm happy to report that most of the portfolio challenges we've discussed are being resolved. Our Thrive portfolio is 100% transitioned and Anthem continues to improve performance. As Clint will discuss later, we are in the process of successfully transitioning the LTC-owned properties operated by Preferred Care.

Senior Care Centers remains the one issue over which we have the most limited control, as they continue to work through the bankruptcy process. The judge in the proceedings entered an order allowing Senior Care to assume their LTC lease. This order requires payment of our cure claim, which consists of unpaid December 2018 rent, late fees and legal fees totaling approximately $1.6 million as of the date of the order. The payment is due either upon the effective date of Senior Care's plan of reorganization, or December 16, whichever comes first.

On October 22, the judge approved the disclosure statement and scheduled a confirmation hearing on December 4, to approve Senior Care's plan of reorganization. From that point, subject to Senior Care securing exit financing, we anticipate it will take approximately two weeks to four weeks for reorganization to become effective and for their emergence from bankruptcy.

This issue aside, we are optimistic about our future prospects, including our current pipeline. In an environment that remains saturated with capital, we see opportunities in the smaller yet strategic deals on which other capital providers are not as focused. We're often approached by regional operators who not only want to grow their businesses, but also have the operational resources to do so, and we are working closely with them to offer an array of financial structures that work for them and for us.

To give us additional flexibility, we recently termed out some of our line of credit, providing us with more liquidities for future investments. Pam will provide additional details in a moment. Our creativity and flexibility allow LTC to remain competitive, providing us with solid opportunities to add new partners and communities to our portfolio.

At the same time, we continue to evaluate our portfolio for divestiture opportunities, where we believe we can redeploy the capital into better, more strategic investments. Our Preferred Care portfolio is the perfect example.

However, reinvesting cash at today's yields makes it a challenge to immediately achieve the same returns earned on older assets. Anticipating significant capital gains helps with the cash to be reinvested, but there may not be an immediate result as we work to redeploy the proceeds. In the interim, the proceeds will immediately reduce amounts outstanding under our line, which costs us approximately 3.4%.

Regarding 2019 guidance, we are currently estimating FFO will be between $2.97 and $3.02 for the year. We have generally provided guidance in a fairly tight range as there are not a lot of moving parts in any given quarter. Currently, however, there remains some timing uncertainty related to Senior Care. Should we not receive the payment of our entire cure claim by year-end, FFO will most likely be at the bottom of the range, while the top of the range estimate reflects full payment of our cure claim, among other things.

Although I'm not prepared to provide formal guidance for next year, we are very comfortable that our dividend will continue to be well covered in 2020. Projected revenue increases from Anthem and from our former Thrive assets, combined with the 2019 investments, should partially offset and replace the Preferred Care rent. And we expect to have less debt after having deployed the proceeds from the potential sale of the Preferred Care assets to pay down on our line of credit prior to reinvesting these proceeds at higher returns than the 3.4% interest savings on our line.

Now I'll turn the call over to Pam.

Pam Kessler
Thank you, Wendy. Revenues increased $5.3 million for the 2019 third quarter from a year ago. $3.8 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 $1.5 million increase relates to revenues from acquisitions, loan originations and additional funding for expansion and renovation projects, rent from completed development projects and increased rent from Anthem, partially offset by lower rental revenue due to properties sold in 2018 and in 2019 lease transition.

NAREIT FFO was $0.77 per diluted share for the third quarter of 2019 and $0.75 for the year ago third quarter. Net income available to common shareholders decreased $7.7 million from the prior year due to a lower gain on sale this year compared with last year and higher expenses, partially offset by an increase in revenues.

During the third quarter of this year, we recognized a $6.2 million gain on the sale of a skilled nursing center in Georgia. We sold the property for $7.9 million and received $7.8 million in net proceeds, which were used to pay down our line of credit. This asset was part of a master lease and rent under the master lease was not reduced as a result of the sale.

Interest expense increased about $330,000 from last year's third quarter due mainly to higher debt balances, resulting from acquisitions, development and CapEx funding, partially offset by lower interest on our senior unsecured notes that resulted from scheduled principal pay downs. G&A expense was in line with the prior year. We anticipate G&A expense to be in the $4.6 million to $4.7 million range in the fourth quarter.

During the 2019 third quarter, as previously announced, we invested approximately $22 million in one new skilled nursing center in the Kansas City metro area and one parcel of land to develop another skilled nursing center with the same operator. Clint will provide additional details. We received a $3.4 million partial pay down on a mezzanine loan and $3.2 million from the payoff of a mezzanine loan that was accounted for as an unconsolidated joint venture.

During the third quarter, we also funded $3.1 million in development and capital improvement projects on properties we own and another $1.2 million under existing mortgage loans, as well as LTC's $0.19 per share monthly dividend. Dividend payments during the third quarter totaled $22.7 million.

At September 30, we owned two properties under development, with remaining commitments totaling $22.9 million, and one property under renovation, with the remaining commitment of $4.4 million. We also have remaining mortgage loan commitments of $13.7 million related to expansions and renovations on seven properties in Michigan and $1.6 million remaining under a preferred equity commitment. We borrowed $18.5 million under our line of credit for acquisitions during the third quarter and made $10.5 million of scheduled principal payments under our senior unsecured notes.

As Wendy mentioned, we recently termed out some of our line of credit using proceeds from the sale of $100 million of 3.85% senior unsecured notes to Prudential. You can find additional details about the transaction in the 8-K we filed on October 10.

We remain focused on maintaining a strong balance sheet to provide us with sufficient flexibility and the capacity to fund current and long-term growth initiatives. Taking into account the sale of notes to Prudential, we have $534.6 million available under our line of credit, $200 million under our ATM program and $7.5 million under our shop agreement with Prudential, providing LTC with total liquidity of just over $740 million.

Our long-term debt maturity profile remains well matched to our projected free cash flow, helping moderate future refinancing risk. We have no significant long-term debt maturities over the next five years. At the end of the third 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 25%.

Now I'll turn the call over to Clint.

Clint Malin
Thanks, Pam. I'll start my discussion with the Preferred Care properties. After the completion of a thorough evaluation of the sale and re-leasing initiative of our skilled nursing portfolio with them, the majority of the properties are currently under contract for sale across multiple transactions. All buyers are currently in the process of conducting due diligence, and should these processes be completed successfully, some closings could occur in December 2019 and the remainder in the first quarter of 2020.

Also of note, we have applied Preferred Care security deposits to satisfy a majority of their outstanding rent obligation to us. However, this did not cover their full obligation, so there was a rent shortfall of $476,000 for the third quarter. For the fourth quarter, we anticipate receiving $55,000 per month in rent from Preferred Care, which equals the amount we are currently receiving, the amount we are including in guidance.

On last quarter's call, I mentioned that two locations owned by an affiliate of Senior Lifestyle in which we hold a preferred equity investment on non-accrual basis were under a letter of intent for sale. The buyer, a not-for-profit organization, ultimately decided not to proceed with the transaction.

With our consent, Senior Lifestyle entered into a letter of intent with another buyer, a for-profit entity. Based on the sales price under the letter of intent, LTC anticipates a loss on its preferred equity investment in the range of $3.3 million, $3.7 million. Concurrently, Senior Lifestyle is pursuing refinancing alternatives to take advantage of lower interest rates in today's market in the event the purchase and sales transaction is not consummated.

I also noted that we anticipated receiving approximately $600,000 of additional income in 2019 based on the forecast of net operating income through the remainder of this year as provided by Senior Lifestyle. As discussed, the $600,000 was not included in our 2Q 2019 guidance.

Since our last call, we received $60,000 in Q3 and $125,000 to date in Q4. Of the remaining $415,000 of anticipated additional income for 2019, $250,000 is now included in the high-end range of our 2019 FFO guidance. The remaining $165,000, which is not included in guidance is anticipated to be received in the first quarter of 2020.

Since the original announcement of our investment in Ignite Medical Resorts, a new operating partner, we have commenced construction on a 90-bed skilled nursing center in the Kansas City metro area. Construction began on October 1, and we anticipate construction, certificate of occupancy and licensure to be completed in the fourth quarter of 2020. Total investment, which includes the purchase of a 90-bed post-acute skilled nursing center built in 2018, also in the Kansas City metro area, is approximately $37 million, including the development commitment.

As to portfolio numbers from which Preferred Care has been removed, given the status of the pending asset sale I discussed, Q2 trailing 12 months EBITDARM and EBITDAR coverage using a 5% management fee was 1.44 times and 1.22 times, respectively, for our assisted living portfolio and 1.83 times and 1.38 times, respectively, for our skilled nursing portfolio.

I'll finish with some comments on our pipeline. We have identified several strategic opportunities to add quality growth-oriented operators to our portfolio and to further improve the portfolio's average age. The current pipeline spans acquisitions, real estate joint ventures and mezzanine loans, both in assisted living, memory care and skilled nursing. There's a high likelihood that we can close north of $30 million in investments between now and the end of January. These transactions would be with operators new to our portfolio.

Now I'll turn things back to Wendy for closing remarks.

Wendy Simpson
Thank you, Pam and Clint. As we move through the remainder of this year and begin our transition into a more positive 2020, there is much about which to be optimistic. We are successfully executing on our strategy of a disciplined approach to building a more diversified asset and operator base, and the majority of our portfolio challenges have been addressed.

We very much value each of our partners and we'll continue to do our best to support them in good times and bad, while maintaining zero intentions of controlling our operations or entering into RIDEA agreements.

Additionally, industry-wide changes, such as PDPM, which is now in its infancy, are anticipated to provide some upside going forward for our SNF partners. Over the coming weeks and months, we look forward to seeing how the SNF industry adjusts to this new payment model.

In closing, I believe LTC has consistently demonstrated our ability to make progress through numerous real estate cycles and challenges by remaining creative, flexible and open to interesting opportunities that others may not appreciate. We look forward to updating you again next quarter. Thank you, as always, for joining us.

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 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 two. At this time we'll pause momentarily to assemble our roster.

And our first question will come from Chad Vanacore of Stifel. Please go ahead.

Chad Vanacore
Hi there. Thanks. So on guidance, does your guidance in the fourth quarter assume the sale of Preferred Care closes? And then what's the impact to FFO assumed in 4Q and then into 1Q 2020?

Pam Kessler
Chad, this is Pam. The impact is about $0.10 to the year on Preferred Care from our previous guidance, and we've assumed the sale in the end of the fourth quarter. So we've assumed that 55,000 per month in October, November, December.

Chad Vanacore
All right. So in that $0.10 of value, how much of that do you assume you get back post sale in terms of rent?

Pam Kessler
You mean from reinvesting?

Chad Vanacore
Yes.

Pam Kessler
We're not giving guidance in 2020 yet, so we haven't assumed anything. But obviously, the yield we were getting in the past on the Preferred Care is not the same as what we would get reinvesting in newer properties, whether they be skilled nursing or assisted living.

Chad Vanacore
Okay. Any thoughts on where your preference is in that skilled nursing versus assisted living and memory care spectrum?

Pam Kessler
We're agnostic still to both types of investments. It's really opportunistic, whichever type presents itself to us.

Chad Vanacore
All right. And then another question. Wendy, you mentioned dividend being secure. Between selling assets, booking gains and losses, deferred rent, where should we expect FFO and FAD payout ratios to be by, say, mid-2020 compared to today?

Wendy Simpson
It's still going to remain about 80% payout to FAD. So it's going to be as comfortable as it's always been.

Chad Vanacore
Have you thought about how tight that gets from here to there, between today and any redeploying capital?

Wendy Simpson
It won't get tighter, it will get looser.

Chad Vanacore
Okay. All right. That's it for me. I'll hop back in the queue.

Wendy Simpson
Thanks, Chad.

Operator
And the next question will come from Michael Carroll of RBC Capital Markets. Please go ahead.

Michael Carroll
Yes, thanks. I wanted to dive into the Preferred Care situation a little bit more. I guess, why did the tenants decide to start paying $55,000 a month versus the previous rate of $1 million? And is there any chance that you could regain that lost rent in the future?

Clint Malin
Good question, Michael. This is Clint. Right now, Preferred Care has been in bankruptcy for just shy of two years now, and the case has been converted to a Chapter 7, which should be concluded here shortly. During the duration of that two-year period, Preferred Care has downsized substantially as an organization and they've had a lot of distraction going on. So, a lot of what we're seeing in the portfolio is a lot of expense control issues, revenue and occupancy have stayed pretty much consistent. It's a lot of the expense control side.

And with that, they've had some challenges in their NOI performance. So that's the number they're able to pay to us. And we're appreciative of what they can pay, but we're obviously moving forward to transitioning these properties as quickly as possible. This definitely is a legacy part of our portfolio, and obviously, selling this and recycling the capital into newer assets is a strategic decision and makes a lot of sense for LTC.

Michael Carroll
Okay. And then, Clint, staying with you, can you talk a little bit about how many assets that you're planning on selling here over the next several months? And what's the plan with the remaining assets that are not under contract to sell right now?

Clint Malin
So right now for Preferred Care, of the 24 properties we have with them, 22 properties are now under contract. So the majority of the portfolio is under contract with due diligence being conducted, and we're negotiating the PSA right now on one of the two remaining properties. So making a lot of progress on that front.

Beyond that going into 2020, we'll be opportunistic and look at opportunistic sales. I don't see the significance of sales, obviously, is what we're doing with Preferred Care. But we will continue as we have been in the past to selectively and strategically look at recycling capital on non-core, non-strategic assets.

Michael Carroll
Okay, great. And then, Pam, last just a quick model question. How much GAAP rent did LTC record under the legacy Thrive assets during the quarter? And what's a good stabilized run rate? I'm assuming that's going to be fully stabilized as we go into the next quarter on a GAAP basis?

Pam Kessler
I don't have the quarterly number, but we gave projections last quarter that it would be $3.4 million from the legacy Thrive assets in year one, going to $4.5 million in year two and $5.2 million in year three.

Clint Malin
But also on that $5.2 million in year three, we do have the benefit of percentage rent on one of the assets and also the two buildings, one in South Carolina, one in Georgia, are on a two-year master lease with the ability to reset rents on those two buildings going forward. So hopefully, that number of $5.2 million would grow in outer years.

Michael Carroll
So that was a cash number though, right, Pam? So is there a GAAP number? I'm assuming that these rents are straight lined? And was the GAAP number fully stabilized in the third quarter, or I guess, what kind of tick up should we expect on a GAAP basis between 3Q and 4Q related to those properties?

Pam Kessler
No, I gave you the cash and GAAP, because right now, those properties are being accounted for still on a cash basis due to the transition and lease-up nature of them. I'll give you a refresher on the fund collectability analysis. You have to be 90 – yes, it has to be more than likely that you will collect 90% of your projected future cash flows over the life of the lease, so over 10 years. And if it doesn't meet that threshold, you won't record straight line rent.

So we haven't met that threshold yet, because my crystal ball isn't good enough for that. So right now, we're on a cash basis until we get some history and cash flow on these properties.

Michael Carroll
Okay. Thank you.

Pam Kessler
So perhaps at some point in the future, we will have that certainty. But right now, that certainty doesn't exist with us.

Michael Carroll
Okay, great. Thanks.

Operator
And our next question will come from Tayo Okusanya with Mizuho. Please go ahead.

Tayo Okusanya
Yes, good morning, everyone. I just wanted to talk about Senior Care for a second, again, realizing that you guys have very little control over the process, as you said. At this point, do you have any sense what the emerging entity could look like? And the reason I ask that is just again, you guys have always expressed some hesitation about a continued relationship with Senior Care, whether it's company specific, whether it's just because of everything that's going on in Texas with Medicaid, but I'm just kind of curious how you kind of think about an emerging entity and how you kind of deal with that against the tough Medicaid backdrop in Texas?

Clint Malin
Hi, Tayo, this is Clint. Good question. Thank you for that. Right now, per the disclosure statement that was approved by the court, the entity that's proposed to emerge would have 22 properties under their operation, which will all be leased, and LTC's portfolio would comprise half of that 22 building portfolio. So we would make up a material part of the emerged organization. Obviously, LTC has had concerns and we filed an objection to the lease assumption. We did not prevail on that. So we made an effort to try to transition these to another operator. One of the concerns going forward is just the capital structure. Obviously, the unsecured creditors will have a position in the ongoing entity.

So that's what the structure will look like. The management team will have a portion of ownership and the remainder would be the unsecured creditors effectively. So that's something we will monitor going forward. And there's always going to be a concern, I think, potentially of some type of exit or recapitalization in the future.

Wendy Simpson
But they are replacing their lender. And so the new lender is doing deep due diligence and will not provide them with a line of credit on those receivables without having some confidence that it'll be a profitable entity. We haven't seen the last budget to come out of bankruptcy yet. Our assets are still doing well. So at this point, we wish them well and profitability in the future. They have asked us to approve the movement of a few beds to another of our facilities to maximize revenue for them, and so we have evidence that they are looking to the future and doing some strategic business planning. So—

Clint Malin
And also, as I said, we're going to be a material part of the organization. So I think they've obviously been adamant about assuming our leases and out of the 100-plus buildings that are within the Senior Care portfolio, our 11 survived. So we like the assets, obviously, Senior Care does as well, and we think we're in a good position.

Tayo Okusanya
But is there any risk, just as you mentioned, of the entity that survives ends up having such a poor capital structure that you could really kind of run into this issue, again, whether it's 12 months or 24 months down the line?

Clint Malin
It's always the potential, but we have credit enhancements under lease. We have financial covenants that would trigger incremental credit enhancements. We have an operator that we have worked with, as we talked about on previous calls, to be prepared to take over these buildings if we have the opportunity. So it's something we're going to closely monitor. We do have, as I mentioned, credit enhancements on this, and it's something we'll be paying a lot of attention to, as we go forward and the company likely emerges from bankruptcy.

Tayo Okusanya
Got you. All right. Thank you very much for that.

Clint Malin
Thank you.

Operator
Our next question will come from John Kim of BMO Capital Markets. Please go ahead.

John Kim
Thank you. Good morning. On the Preferred Care, if I heard you correctly, your preference is to sell the assets. Should we assume it's going to be a double-digit cap rate on the last annualized rent of $12 million, just based on the performance of the portfolio?

Clint Malin
This is Clint. I think that's probably double digits is an accurate number. This is a legacy part of our portfolio, an older [indiscernible] skilled nursing building. So I think that will be priced along those lines. Right now it's our intent, we have 22 of the buildings under contract, so our intent is to move forward with a sale of these properties and there is due diligence being conducted in sale. If we get through the due diligence period with the buyers, we'd be able to provide more visibility in the future regarding the price point.

John Kim
Okay. And Clint, on the investment pipeline and the $30 million you expect to close potentially by the end of January, is it going to be more focused on acquisitions and loans rather than developments because of the earnings gap?

Clint Malin
These would be acquisitions.

John Kim
Acquisitions, okay. Can you discuss the mezz loan environments, given your cost of capital has improved, cost of debt is coming down? Are you willing to accept lower rates on mezz debt?

Clint Malin
I think it's something that, it's an option for us and it's a tool in selling and forming relationships with operating companies. So it's something that we will continue to look at strategically as one component to deploy capital. It's obviously not exclusive that we do that, but if there are situations that arise where it's opportunistic for us to be able to provide that type of financing, and I think with our cost of capital, we have the ability to be flexible and strategic in working with companies to develop relationships. And if that is an investment structure that we can do, we'll absolutely take advantage of that.

John Kim
Okay. And then a final question on assisted living. You've had an occupancy increase sequentially for the past several quarters. Do you expect a similar increase in the third quarter just with the seasonal pickup, and can you just discuss the ability for your operators to increase occupancy despite the supply headwinds?

Clint Malin
I think we would see that occupancy would continue hopefully to grow a little bit. Anthem has been performing stronger in their occupancy. And as you go into "seasonal aspect," we would hope to see some continued increase in that occupancy number. I wouldn't expect large jumps, but I think that continued improvement is what we're expecting.

John Kim
Is it that your markets are not seeing as much supply pressures from other REITs?

Clint Malin
Yes, there are still starts, still building openings. There's not as many starts. So we're not seeing as much in our markets. So that's what we're seeing right now.

John Kim
Okay. Thank you.

Clint Malin
Thank you.

Operator
Our next question will come from Jordan Sadler of KeyBanc Capital Markets. Please go ahead.

Jordan Sadler
Thank you. Another one on Preferred Care. What was the trailing EBITDAR coverage in occupancy of these assets that you could sort of point to?

Clint Malin
I don't think we've given trailing occupancy or trailing coverage for this portfolio, Jordan. But, as I mentioned in my earlier comments, we have seen deterioration in that EBITDAR and that's a function of where we're at in regard to we're at with rent. So it has definitely declined in that portfolio.

Again, we think that the buyer population really is not necessarily looking so much at the bottom line. We're looking more at occupancy and revenue, because they have the ability to come in and implement their operating procedures and their cost efficiencies on as long as the occupancy and revenues continue in place.

Jordan Sadler
So how low have occupancies gotten to at this point?

Clint Malin
Say that again?

Jordan Sadler
So what do occupancies look like? Where are they at this level that they are looking at that opportunistically?

Clint Malin
I think across the portfolio, let me get that number for you, just a second. It should be right around the 80% mark, I believe.

Wendy Simpson
The positive part of the Preferred portfolio is that the revenues have stayed fairly high. And I'm sure, part of their cost challenges are labor costs, because they're probably using a lot of agencies. It's hard to hire permanent people in an asset that's going to be sold, and nobody is really paying attention to cost controls and that sort of things. So the good part of the Preferred assets are that the revenue continues to hold. And as Clint said very clearly, the costs are coming up.

Jordan Sadler
My question for you is little bigger picture on Preferred Care. I feel like this is coming as a bit of a surprise to us in a way in that, I don't know, was it a year ago when we – well, no, would you say two years, I mean, the bankruptcy. So it keeps going, it's been in bankruptcy for quite some time. Immediately you guys kind of made sure that we all understood that it wasn't necessarily your properties that were exposed to the bankruptcy, right, if I'm not mistaken. It's kind of been the status quo, and then more recently, you said, we're going to evaluate whether or not it makes sense to sell some of these assets. Now all of a sudden, you're getting $55,000 of rent per month instead of a $1 million.

What was the catalyst for this? And why are we so surprised? And why are you not receiving rent? I think Clint kind of went through a little bit that there's been some struggling and this has languished, but I thought your properties are not part of the bankruptcy? What am I missing?

Clint Malin
Jordan, this is Clint. It's a good question. The master lessee was part of the bankruptcy, but some tenants that hold the licenses, they were not part of the bankruptcy numbers. When Preferred Care filed, they only filed on a portion of their companies, not the entire organization. So that's the aspect regarding the bankruptcy.

Wendy Simpson
And at that time, they told us that they intended to operate these properties and affirm the lease, and this is going to be part of their emergence from bankruptcy. When that changed, we were very transparent and said Preferred Care has decided they're going to be a much smaller company and that smaller company will not include our assets, and that was earlier this year.

Clint Malin
Yes.

Jordan Sadler
Was that affirmed lease under the bankruptcy under sort of the purview of the bankruptcy court?

Wendy Simpson
It would have been. But remember, yes, remember earlier this year, we said probably it was our first quarter call, or year-end call, we said that lease did not get affirmed. They did not affirm it by the deadline. And that was something different than they had told us they intended to do.

Clint Malin
Well, even after that, so they told us because they didn't affirm it, they wanted to continue to operate there. So I think their decision process in their organization, Jordan, I think it evolved and changed over

time as they were looking at how they downsize their organization. So obviously, the fact that it wasn't assumed in bankruptcy when they told us it would be assumed, after the deadline passed, they told us they still wanted to be in the building, and then through that process, they changed their mind they wanted to exit certain geographies, of which our buildings happened to fall into, which then changed their mind to further want to – or made the decision they wanted to get out of our buildings, potentially stay in a couple of our buildings. And then during the duration of this, the focus on operations and expense control caused a deterioration in the cash flow.

So it's a combination of a number of things that have happened rather quickly as they were looking at right-sizing whatever remaining organization they'll have going forward, which I think is going to be a much smaller organization than they originally intended to have. And it's going to be a different company than even they expected, I think, back when they were – before this case converted to a Chapter 7. Again, that Chapter 7 being on very specific entities, not the entire organization.

Jordan Sadler
So, look, I can appreciate all this. But like, I feel like in the last two years, number one, you've had quite a bit of time to sort of stew on this and watch this play out. I guess, I'm curious, one, why haven't you looked to replace the operator, or at least find an operator that could just jump in?

I'm not as close to the properties at a property level, but it sounds like some people would be interested at this rent or at the legacy rent, because at some point, they were performing. And it seems to me – correct me, if I'm wrong, over the last two years, the environment for SNFs has gotten better not worse in a way, or at least in valuation, right? Interest rates are extraordinarily low. I feel like the reimbursement environment has been benign to positive. What am I missing?

Clint Malin
Those are good questions. So we approached Preferred Care to try to sell these assets back to them before they filed bankruptcy. So we were looking at actually working with Preferred Care to strategically sell these over a period of time to them, then they filed bankruptcy. So that discussion with them to strategically sell them, we weren't able to do that. And as we've seen through the Senior Care process, the ability to change an operator in the course of a bankruptcy case, is not easy. And so given that it's been two years since that timeframe the ability to change the operator in a bankruptcy, we're not in control of that.

Wendy Simpson
And these are not properties we intend to hold long-term. We said that for a while with that lease maturity coming up in 2021, that these properties were not the type that we were buying today. And we had always intended to recycle the capital out of them, it was just a matter of timing.

Jordan Sadler
Okay. I guess, my sense is that maybe you would have been able to preserve value to a greater extent had you lined up an alternative operator [overlapping voices] but maybe I'm missing it.

Clint Malin
Yes, Jordan, before we could line up another operator really before they filed bankruptcy, in our discussion with Preferred Care about selling the assets to them, we could have only sold the buildings suddenly to existing leaseholds. We don't have the ability to sell to or putting another operator before they filed bankruptcy, and it made a lot of sense to as we were discussing with Preferred Care to sell the buildings to them.

Jordan Sadler
Okay. So now as it stands, you didn't get 476,000 of the million in the third quarter that they would – sorry, of the $3 million that they would have paid you ordinarily in the third quarter, right? So that was the shortfall in 3Q. And then as you transition to 4Q, this is a question for you, Pam, in terms of revenue, now the $2.5 million that you had in 3Q is only going to be $150,000, $160,000 or something like that, right?

Clint Malin
Yes.

Jordan Sadler
And that's really what's happening. So I guess, the offset of the upside to the low-end of guidance, what's sort of offsetting that deterioration, because you obviously had this negative guidance? So what's driving, what's sort of helping support you sequentially?

Wendy Simpson
On the upside, it's—

Jordan Sadler
Yes.

Wendy Simpson
—the Senior Care potential payment. So you have a deterioration of [overlapping voices]. Yes, you have a deterioration of $0.10 coming from Preferred Care and then you have a counterbalance of $0.04 from Senior Care and then another $0.01 from kind of miscellaneous things.

Jordan Sadler
Okay. But I think, correct me if I'm wrong, Senior Care, you have zero, I thought Wendy said, at the low-end?

Wendy Simpson
No, at the low-end, we don't have $1.6 million. So the $2.97 million of the low-end of guidance assumes we do not get that payment this year. And the high-end of guidance assumes we get that payment, which is $0.04, and then there's another $0.01, that's just a bunch of miscellaneous things like percentage rent and things that we don't typically model.

Jordan Sadler
So, if we're trying to get to like sort of a run rate as we look through to 1Q 2020, that $1.6 million is only a one-time item in anyway, that $0.04 or so. So it's really the low-end number that's sort of a better run rate, or at least the difference between your year-to-date 2019 and the $2.97 million, that's sort of almost a better run rate going forward?

Wendy Simpson
That is correct. Yes.

Jordan Sadler
Okay. And then just a similar clarification on Senior Lifestyle. You're recording in terms of income there nothing on – it's like only on a cash basis. You said you received $60,000 in 3Q, $1.25 million so far in 4Q and the high end of the range has $250,000. I caught all of that. What happens to the loss? Where will that be booked? And will that be in FFO at all?

Wendy Simpson
No. It will not be in FFO.

Jordan Sadler
Or is that just an ultimate – okay, then it's ultimately a realized loss on those properties?

Wendy Simpson
Right. If we end up selling it. Right now, we've kind of pegged it 50% chance it'll get sold and 50% chance that it will get refinanced.

Jordan Sadler
Okay.

Wendy Simpson
And the underlying property is refinancing, not us refinancing, we bought that with cash. But the underlying properties are looking at a refinancing.

Jordan Sadler
Okay. Okay, that helps. Thank you.

Clint Malin
Thank you.

Operator
And our next question will come from Connor Siversky of Berenberg. Please go ahead.

Connor Siversky
Good morning, everyone. Just changing gears a little bit. With the implementation of PDPM on October 1, just wondering what kind of feedback you've gotten from your skilled nursing operators? And then what kind of timeframe do you think the business environment will kind of stabilize under PDPM?

Clint Malin
We've had conversations with a number of our operators regarding PDPM. Obviously, just being implemented on October 1 the parties are going through the quoting process. Billing right now for October wouldn't occur until the first part of November. So with the operators that we've spoken with about that, they've been planning and training for this implementation, and really no glitches or concerns that have been identified to us. So I think as we go into the next quarter, we'll have more visibility on that.

But at this point, really hasn't been any concerns because a lot of companies have really prepared and trained employees for this, and so once the billing takes place and then payments are made in middle of November, we start being able to see where those rates are compared to the PPS structure before. So I think it's a little premature right now to be able to assess where that's at. But overall, I think operators feel optimistic about that, plus with the implementation of group and concurrent therapies as well.

Connor Siversky
Thanks for that. And then maybe for smaller mom and pop operators that aren't represented in your portfolio, do you think the moving goalpost of PDPM, to some degree, may result in some opportunities to acquire some properties and put in place maybe one of your operators, or is it still too early to tell?

Clint Malin
Absolutely. I think you're going to see a migration the more complex this business gets, especially under PDPM with the focus on more complex care. I think you're going to see people wanting smaller operators, mom and pops wanting to exit would be my guess.

Connor Siversky
Great, great. And then you mentioned a bit of an extended acquisition pipeline, maybe going into 2020. Are you seeing any yield movement for your target properties, whether that be in assisted living or skilled nursing? And then maybe the same question as it pertains to any particular markets?

Clint Malin
As far as yields, we're looking pretty much at the same type of yield on investments, between the 7% to 7.5% on private pay, probably 8.5% to 9% on skilled is what we're looking at. Overall, our transaction cap rates, I think, have changed a lot from what they've been in the past. As Wendy mentioned in her prepared remarks, there definitely is a tremendous amount of capital in the marketplace that's attractive both on the skilled side as well as on the private pay side.

I think there's just a lot of price discovery going on still on the investment side. There are transactions we've seen that have come back around that haven't sold coming back around for the second or third time. On the opposite side, we're seeing some assets that are getting tremendous price premiums where we have a disconnect of maybe 50% or more of valuation in looking at some brokered deals. So the price point, I think, is still a little bit all over the board, and there's definitely some price discovery going on.

Connor Siversky
Gotcha. So do you think the competitive environment has remained relatively stable and what do you think the outlook for that is going into 2020?

Clint Malin
I think there's still a lot of capital looking at buildings. So I think it's going to remain competitive. Where we see the most opportunity is in one-off transactions. We're not looking at larger marketed deals. We see the activity coming in. But given price points, we're probably more inclined to look at one-off acquisitions that we can tuck into existing relationships or build upon new relationships.

Connor Siversky
All right, great. That helps a lot. That's all for me.

Clint Malin
Thank you.

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

Todd Stender
Thanks. And Clint, probably just to stick with you. Just looking at the Missouri deals, you announced in the quarter they're interesting, because you get a pretty good snapshot of an acquisition versus new construction with the same operator, same bed count. The acquisition was made above replacement cost, if you look at the cost of the new construction, but maybe that's too simplistic. I wonder if you could just expand on maybe the difference.

Clint Malin
Well, it was [indiscernible] I mean, strong occupancy. So that's a function of with the buildings that you're not taking that risk associated with the lease-up.

Todd Stender
Sure. So, you get the higher yield upfront, right, with the new construction. Any differences in mix or location, anything like that?

Clint Malin
No. It would look to near the existing property.

Todd Stender
All right. And then, Pam, I think you talked about it the Georgia SNF that you sold in the quarter. It was pretty good size, but the price seemed low, I don't know if that had been written down. And then you spoke about the rent within the master lease. Any color, you could expand there?

Pam Kessler
I think that sales price and the fact that rent didn't change would imply that that was an older building, not contributing a lot of cash flow to that master lease. So if you want to read that into the numbers you can.

Todd Stender
Okay. That's it for me. Thanks.

Pam Kessler
You're welcome.

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

Daniel Bernstein
Hi, good morning. Just quick question. I hope it wasn't already asked or you addressed it. I came on late. Michigan Medicaid, there's been a proposal that could affect some, I guess, Medicaid payments in Michigan, and you obviously have some exposure to Prestige, actually a larger operator, but any thoughts on Michigan Medicaid and the impacts there potentially on your portfolio?

Clint Malin
Sure, Dan. We've had a conversation with Prestige Healthcare regarding that proposed change on the Medicaid side, and it really affects the variable cost limit and it reduces that from the 80% to the 65% if it takes effect. With Prestige, they pretty much are operating in our portfolio at that 65% range. So it really only impacts you to the extent you exceed that variable cost limit.

So they do have some properties that exceed that. But that's been sort of strategic from acquiring buildings from a not-for-profit, which has a higher cost structure and if they reduce that cost structure over time. So there might be a little bit of hit on a couple of building, but by and large, it seems like they are going to have tremendous impact from that potential change that could take effect.

Daniel Bernstein
Yes, the ACO had indicated mostly the larger regionals should be able to weather it. So I'm not surprised by your comments, just wanted to verify it.

And then the other question I had was on Preferred care, are those sales to multiple parties, or is it a single party that's buying those assets as a platform?

Clint Malin
It's multiple parties that are looking at the buildings. They're in different states, so most of it is targeted by state.

Daniel Bernstein
Okay. Yes. That's all I had. Thanks.

Clint Malin
Thank you.

CONCLUSION

Operator
This concludes our question-and-answer session. I would like to turn the conference back over to Wendy Simpson for any closing remarks. Please go ahead, ma'am.

Wendy Simpson
Thank you. Thank you all for your questions and for your attendance today. We look forward to updating you in the future. Have a great weekend.

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