LTC Properties, Inc.

Q4 2020 Analyst and Investor Conference Call

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CORPORATE PARTICIPANTS

Wendy Simpson- *Chairman and Chief Executive Officer*

Pam Kessler- *Co-President and Chief Financial Officer*

Clint Malin- *Co-President and Chief Investment Officer*

PRESENTATION

Operator
Good day and welcome to the LTC Properties Fourth Quarter 2020 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 1 on your touchtone phone. To withdraw your question, please press star, then 2.

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 31st of 2020. 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. Please go ahead now.

Wendy Simpson
Thank you, Operator, and good morning to everyone. Welcome to LTC's 2020 Fourth Quarter Conference Call. Joining me today are Pam Kessler, Co-President and Chief Financial Officer, and Clint Malin, Co-President and Chief Investment Officer. I'd like to start off today's call by offering our sincerest thanks for 2020 coming to an end and to again thank our operators for all they have done and keep doing to keep their patients, residents, and staff safe. It continues to be a somewhat uneasy road, but our partners have shown amazing resilience and grace.

Operating through the pandemic has been different from any other cycle in the history of our industry. During the '08/'09 financial crisis, certain levers could be pulled while waiting out a return to normalcy. Similar levers do not exist in this current cycle. By now you have read news reports or heard earnings calls of other healthcare REITs citing squeezed margins, move-in challenges, labor exhaustion, decreasing lengths of stay, home healthcare growth, and holds on elective surgeries, all creating challenges to operators. We do believe that the industry census is close to or has hit bottom.

As the current vaccines, and hopefully a third from Johnson & Johnson, become more widely available and utilized, visitation opens up, communities and facilities continue to aggressively market their services, and consumer confidence in these settings improves, we should see the current census stabilize and even improve. However, visibility to these events remains low, so we can't predict when that might happen or when the industry will be able to fully recover from the effect of the pandemic.

Because LTC has built a conservative foundation with a strong and flexible balance sheet, we can continue to provide support to our operators if needed and take advantage of investment opportunities as they arise, without placing undue strain on LTC. The need for senior care hasn't abated, and states in which we have some of our highest concentration of properties are also states with the highest projected increases in the 80-plus population cohort over the next ten years.

Government support for our industry remains vitally important, and our industry associations have successfully lobbied and are continuing to lobby for much-needed ongoing aid and support. With the new administration, likely comes more spending on, and attention to, the COVID crisis. It remains to be seen how much additional aid, and with it, additional governmental regulation, will be forthcoming and when it will arrive. We believe this extra support is necessary.

Last month the Federal Public Health Emergency Declaration related to the Corona pandemic was extended through April 20th, keeping in place the temporary 6.2% increase in federal Medicaid-matching funds, including the three-day hospital stay waiver. We believe a further extension is likely. Additionally, a bipartisan bill was drafted to help ensure that senior care communities and facilities can maintain adequate staffing levels by allowing temporary nurse aids to retain their certification status after the COVID-19 emergency declaration has been lifted.

In addition to the new stimulus package being negotiated, about $30 billion of prior earmarked aid remains unallocated, which will hopefully provide some incremental support to operators and the industry.

Moving now to more LTC-specific discussions, I'll start with rent deferrals and abatements. Fourth quarter rents and mortgage-interest income collections were strong at 98%. As previously disclosed, we provided partial relief to all eligible operators in the form of reduced 2021 rent escalations. We thought it was prudent to proactively offer relief to our partners so that they had additional funds early in 2021. The rent credit is expected to have an approximate $530,000 impact on our 2021 GAAP revenue and an approximate $1.3 million impact on our 2021 FAD. As we noted when we announced this program, our Board discussed various ways for LTC to provide support while balancing our fiduciary responsibilities to shareholders, so while FAD will be reduced, we are focusing efforts on replacing the funds with accretive transactions this year. We will evaluate requests for additional support from operating partners as we receive them and will review them on a case-by-case basis with careful evaluation of each operator's ongoing operations, rent coverage, corporate financial health and liquidity. Pam will provide additional color shortly.

Next, I'll discuss our Senior Lifestyle portfolio, which is currently a main area of focus for us as we work to transition the 23 communities they have operated for LTC. So far in the first quarter, we have transitioned 11 assisted living communities to two operators. One operator is new to LTC and the other is an existing partner, and our goal is to complete all SLC-related transitions by the end of the second quarter. Clint will spend some time on the specifics.

The M&A market remains challenging for the industry. While there are deals being done, we do not plan to relax our underwriting standards, opting instead to wait until we can complete deals that provide accretive growth for our shareholders. We do not expect to engage in any large transactions for the foreseeable future, but we are seeing interesting opportunities to participate in growth through structured finance deals with reduced risk profiles and strong returns, especially for development projects that are not dependent for success on immediate lease-up or current census.

When the market begins to open up, we plan to use our considerable balance sheet to provide a wide range of regional operating partners with the financing they need to help grow their businesses. Until then, we will continue to develop new relationships and solidify existing ones so that we're ready to act when we see appropriate opportunities. Right now we see too many uncertainties in 2021 and we feel we cannot reasonably provide guidance at this time.

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

Pam Kessler
Thank you, Wendy. Total revenue declined $190,000 compared with last year's fourth quarter, impacting our results for abated, delinquent, and deferred rent granted in 2020. a reduction in property tax revenue, and lower rental revenue from the sale of the Preferred Care portfolio in 2020. Additionally, in the fourth quarter of 2019, we collected past-due rent from Senior Care. Partially offsetting the decline was rent from acquisitions and completed development projects, higher rent payments from Anthem, and contractual rent increases. Mortgage interest income increased $226,000 due to the funding of expansion and renovation projects. Interest expense decreased $490,000 due to lower outstanding balances and interest rates under our line of credit in the fourth quarter of 2020 and scheduled principal payments on our senior unsecured notes.

Property tax expense decreased $809,000, primarily due to the timing of Senior Lifestyle property tax escrow receipts and the payment of related taxes. G&A expense increased $675,000 compared with the fourth quarter of 2019 due to the reimbursement of legal fees from Senior Care in the prior-year period as well as the timing of certain expenditures.

Income from unconsolidated joint ventures decreased $270,000 due to a dissolution in 2019 of a preferred equity investment in a joint venture, offset by two preferred equity investments we made in 2020. During the fourth quarter of 2020, we reported a $3 million impairment charge associated with a memory care community in Colorado operated by Senior Lifestyle. The impairment related to our relief efforts of this property. During the fourth quarter of 2019, we recognized a $5.5 million impairment charge related to the Senior Lifestyle joint venture. The four properties comprising the JV were sold in the second quarter of 2020. Accordingly, we received liquidation proceeds of $17.5 million and recognized a loss on liquidation of unconsolidated joint ventures of $620,000. During the fourth quarter of 2020, we recognized an additional loss of $138,000 related to the final liquidation of this unconsolidated joint venture.

In the fourth quarter of 2019, we recognized a $2.1 million gain from insurance proceeds related to a closed skilled nursing center in Texas. This property sustained hurricane damage and rather than rebuild it, we sold it and two other properties in the fourth quarter of 2019, resulting in a cumulative loss of $4.6 million.

We provided Senior Lifestyle deferred rent in the amount of $394,000 in April of last year. While this amount has since been fully repaid, they failed to pay full rent during the second quarter of 2020. As a result, we wrote off a total of $17.7 million of straight-line rent receivable and lease incentives related to this master lease and transitioned rental revenue recognition to a cash basis effective July 2020. During the fourth quarter of 2020, we applied their letter of credit and deposits totaling $3.7 million to accrued second quarter 2020 rent receivable of $2.5 million and notes receivable of $125,000, with the remaining $1.1 million to third and fourth quarter 2020 rent. At December 31, 2020, Senior Lifestyle's unaccrued delinquent rent balance was $1 million.

Net income available to common shareholders for the fourth quarter of 2020 increased by $5 million, primarily resulting from acquisitions and completed development projects, rent increases, lower interest expense, the prior year's loss on sale, and the fourth quarter of 2019 $5.5 million impairment charge. Offsets included the $3 million impairment charge, decreased rent related to the Preferred Care property sales, abated and deferred rent net of repayment, a decrease in property tax revenue, the 2019 receipt of 2018 past-due rent from Senior Care, and the fourth quarter of 2019 gain from insurance proceeds.

NAREIT FFO per fully diluted share is 78 cents in the fourth quarter of 2020 and 81 cents in the prior-year fourth quarter. Excluding the gain from insurance proceeds in the fourth quarter of 2019, FFO per fully diluted share was 76 cents. The 2-cent increase in FFO, excluding the gain, was due to lower weighted-average shares outstanding in 2020, resulting from the purchase of shares in the first quarter of 2020 under our share buyback program.

Moving now to our investment activity, during the fourth quarter of 2020, we invested $5 million under our previously announced $13 million preferred equity commitment related to the development of a 267-unit independent and assisted living community in Vancouver, Washington. Our investment earns an initial cash rate of 8% and a 12% IRR. We expect to fund our remaining $8 million investment before the end of the first quarter of 2021. The preferred equity investment is accounted for as an unconsolidated joint venture.

We also funded $6.3 million in development and capital improvement projects at a weighted-average rate of 8% on properties we own and paid $22.4 million in common dividends. Our 2020 FAD payout ratio was 77%. We currently have remaining commitments under mortgage loans of $1.7 million related to expansions and renovations on three properties in Michigan. We also paid $7 million in regular scheduled principal payments under our senior unsecured notes.

Subsequent to the end of the quarter, we borrowed $9 million under our unsecured line of credit. Including this borrowing, we had $7.8 million in cash; $501.1 million available on our line of credit, under which $98.9 million is outstanding; and $200 million under our ATM program, providing LTC with liquidity of approximately $709 million. As a reminder, we have no significant long-term debt maturities over the next five years.

At the end of the 2020 fourth quarter, our credit metrics remained favorably compared with the healthcare REIT industry average, with net debt to annualized adjusted EBITDA from real estate of 4.3 times, an annualized adjusted fixed charge coverage ratio of 5.3 times, and a debt-to-enterprise value of approximately 30%.

I'll conclude my remarks with a discussion of rent deferrals and abatements. We collected 98% of fourth quarter rent and mortgage interest income, including the application of Senior Lifestyle's letter of credit and deposit. Of the rent not collected, $360,000 related to rent abatements and $369,000 related to rent deferrals net of repayments, which were provided to three private-pay operators Clint mentioned on our previous earnings call.

As I mentioned earlier, Senior Lifestyle remains delinquent in their 2020 contractual rent by $1 million, and they have paid no rent so far in 2021. For all of 2020, we collected 98% of contractual rent, including the application of Senior Lifestyle's letter of credit and deposits. Of the 2% we did not collect, 0.7% was abated, 0.7% was net deferred, and the remaining 0.6% was delinquent.

To date so far in 2021, rent deferrals total $689,000, net of $14,000 of deferred rent repayments. These deferrals relate to the same three private-pay operators previously mentioned. Excluding the rent credit related to the rent escalation reduction already discussed, abated rent to date in 2021 is $360,000. We did receive rent from the operators who transitioned former SLC-operated communities to date. Clint will provide more detail.

Now, I'll turn things over to Clint.

Clint Malin
Thanks, Pam. I'll start my discussion with Senior Lifestyle. As Wendy said earlier, thus far in the first quarter of 2021, we have transitioned 11 of the 23 assisted living communities under their master lease. Six of these communities were transferred to Randall Residence, a current LTC operator, and five were transitioned to Encore Senior Living, an operator new to us.

The Randall communities, five of which are located in Ohio and one in Illinois, were transferred on January 1st. Combined, these communities contain 344 units. We first began working with Randall in 2019, when we acquired two properties in Michigan, and they are now the operator of eight LTC properties. Randall already operates properties in Ohio and Illinois and has a strong regional presence in the Upper Midwest. The six properties were added to an existing master lease with Randall. Terms of the amended master lease were extended by one year, with nine years remaining. Incremental cash rent under the amended lease is $2.7 million for the first year, $3.7 million for the second year, and $3.9 million for the third year, escalating by 2% annually thereafter.

On February 15th, we transferred five communities, all in Wisconsin, a total of 374 units, to Encore Senior Living. Encore, founded in 2011, is a major player in the Wisconsin market, operating 34 locations before serving these communities. The new master lease covers a 10-year period, with three 5-year renewal options. Cash rent under the lease is $2.6 million for the first year, $3.3 million for the second year, and $3.4 million for the third year, escalating by 2% annually thereafter.

Partnering with regional operators is an important part of LTC's long-term strategy and expanding our relationship with Randall while building a new one with Encore, are great examples of our ability to partner with operators who have a solid presence in their local markets and regions.

There are now 12 buildings remaining in the Senior Lifestyle portfolio. Of those, we will be transferring five and selling three and continue to evaluate options for the remaining four properties. Of the five that will be transferred, four are expected to be transferred by the end of Q1 and the fifth by the end of Q2. The three properties we intend to sell are under contract with an expected closing at the end of the second quarter, subject to timely completion of due diligence. The four remaining properties have a net book value of approximately $4.5 million. One of those properties is being closed and will be sold for an alternative use, and we are evaluating our options for the remaining three.

Now I'd like to quickly update you on our most recent developed projects to come online. Weatherly Court, which is located in Medford, Oregon, and operated by Fields Senior Living, began accepting residents last September. As of February 15th, occupancy was 23%, up from 10% on October 23rd. The opening of this community was delayed due to the pandemic. As a result of the delay and because as a newly opened property, Fields was not eligible for government stimulus money. We have agreed to provide them $1.3 million of additional free rent.

Ignite Medical Resort in Blue Springs, which is located in Independence, Missouri, began welcoming patients last October. At February 15th, occupancy was 64%, up from 23% on October 23rd.

Last quarter we discussed Genesis and its disclosed doubt regarding its ability to continue as a going concern. Genesis remains current on all of its lease obligations to LTC. They operate six properties for us — five in New Mexico and one in Alabama.

The Brookdale master lease matures on December 31, 2021. The first renewal option is for a 4-year period. The notice period for the renewal option began on January 1, 2021 and ends on April 30, 2021. In 2020, we extended a $4 million capital commitment to Brookdale, which is available through December 31, 2021, at a 7% yield. To date, we have funded $2 million of this commitment. Of note, aside from the Brookdale lease renewal, we have only one other lease that expires in 2021. The SNF operated under this lease is under contract for sale, with closing expected in the second quarter.

Next I'll discuss our portfolio numbers. As a reminder, given the pandemic and the challenging environment it has created, we don't believe coverage is a good indicator of future performance at this time and are focused mainly on occupancy trends, which I'll discuss shortly.

Q3 trailing 12-month EBITDARM and EBITDAR coverage, using a 5% management fee was at 1.14 times and 0.94 times, respectively, for our assisted living portfolio. These metrics are the same with and without stimulus funds, as no operators allocated these funds to their P&L statements. Excluding Senior Lifestyle from our assisted living portfolio, EBITDARM and EBITDAR coverages would increase to 1.25 times and 1.04 times, respectively.

For our skilled nursing portfolio, EBITDARM and EBITDAR coverage was 1.85 times and 1.39 times, respectively. Excluding stimulus funds, EBITDARM coverage was 1.58 times and EBITDAR coverage was 1.13 times.

Now for some occupancy trends in our portfolio, which is, as of January 31st. As a reminder for our private-pay portfolio, occupancy is of that date specifically, and for our skilled portfolio, occupancy is the average for the month. Because our partners have provided January data to us on a voluntary and expedited basis, the information we are providing includes approximately 71% of our total private-pay units and approximately 93% of our skilled nursing beds.

Private-pay occupancy was 79% at September 30th, 72% at December 31st, and 71% at January 31st. For skilled nursing, the average monthly occupancy for the same time periods, respectively, was 70%, 66%, and 66%. We cannot predict when occupancy might begin trending upward.

Regarding 2021 growth, when we are confident that we can complete deals at the right price for the right return, we will use our liquidity to provide strong regional operators with the growth capital they need. Until that time, we will focus on smaller investments of what we believe to be a better risk/reward profile, using vehicles, such as mezzanine and preferred equity financing, while building new and existing relationships that will serve us far into the future. The preferred equity transactions we announced last quarter validate our ability to successfully transact in this market.

With that, I'll turn the call back to Wendy for her closing remarks.

Wendy Simpson
Thank you, Pam and Clint. This pandemic has caused considerable disruption within our industry and we can't determine exactly when things will begin to return to pre-pandemic levels. The rollout of the COVID vaccines, a new administration that is focused on getting the country

through the pandemic, and an industry that is working hard to stabilize occupancy and restore consumer confidence, give us hope that things are starting to turn and will continue to get better.

As a company that has always viewed its operators as partners and a company that has worked hard to build a balance sheet capable of withstanding the very type of crisis through which we have been managing, LTC is ready and able to continue enhancing its portfolio, diversifying its investments, and generating new opportunities to allow us to continue to serve as a growth partner of choice as a REIT done differently.

QUESTIONS AND ANSWERS

Operator
We will now begin the question-and-answer session. To ask a question, you may press star, then 1 on your 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 2. And at this time, we will pause momentarily to assemble our roster.

And the first question will come from Juan Sanabria with BMO. Please go ahead.

Juan Sanabria
Hi, good morning. I hope everybody's doing well.

Wendy Simpson
Good morning, Juan.

Juan Sanabria
Thank you. Just wanted to dig a little deeper on Senior Lifestyle's — you've transitioned 11 of the 23, you've given us some numbers on the go-forward rent on this asset through transition, but, I guess, holistically, are you planning to keep those assets that have been transitioned, those 11 assets, or are those up potentially for sale? Any — and could you give us a sense of the EBITDAR that the assets — that holistically you're looking to sell or generating, just some rough guideposts to maybe how to think about the go-forward run rate around Senior Lifestyle?

Clint Malin
Hi, Juan, this is Clint. It's — right now as we're in the midst of these transitions and a few sales as I mentioned in my remarks, and it's hard to give specific guidance right now, you know, going forward. We provided the detail to date of what's happened with the transition of the 11 buildings, and we do anticipate having all transitions and sales completed by the end of Q2, which at that time, we'll be able to give numbers. But as we said last quarter, I think one thing to expect is, because of the impacts of COVID on the performance, not only to these buildings but in our portfolio and other buildings across the country, there's going to be a ramp-up in rent over time, which you've seen in the information we provided with these two operators — is you can see that the rent staggers over and builds up over a two- to three-year period.

Juan Sanabria
Can you provide the — maybe the total units under those 23 assets and maybe how you think about asset values on a per-unit basis, given that NOIs may be not really meaningful at this point?

Clint Malin
On a per-unit metric right now, I just don’t think it’s a relevant number. But as far as the units, I’ll get the — I don't have the exact units of the 23, but I’ll get them for you in just a second.

Juan Sanabria
Okay. And maybe just on Genesis, can you give us a sense of what the discussions are going on, what discussions may be going on there and how involved you are if that’s really being run by the two main creditors at this point? Any insights into the discussions happening there would be helpful.

Clint Malin
Sure. I mean, we have — we’re a very small part of Genesis’ overall portfolio. We have a long-term relationship with Genesis, and we have active discussions with them regarding performance, the two property inspections. So, there’s a dialogue, and we’ve been interacting with them, but again, we’re a small piece of their overall portfolio.

Wendy Simpson
But we’re not aware of any discussions that are going on for restructuring or anything like that. So, if you’re asking are we part of a discussion of a restructuring or a reorganization, we haven’t been invited into, if there are, any of those discussions going on.

Pam Kessler
And as a reminder, we restructured our lease last year to, I guess, 2019 now, so a couple years ago we restructured our lease. So, we don’t believe that we’re part of their problem.

Clint Malin
Yeah, and one thing we’ve seen as we’ve talked about on previous calls, you know, as I mentioned, five of the buildings are in New Mexico, and New Mexico has had Medicaid rate increases over the last couple of years with provider tax as well as just a flat Medicaid rate increase. So, they’ve seen some substantial increased rates — or increased revenue on the Medicaid side, which has been positive for the portfolio.

Juan Sanabria
Great. And just one last one for me. For Brookdale, what% of whether they’ll renew or not, and could you give us a sense of their coverage just to help us think about how they might be thinking about that lease option?

Clint Malin
Yes. I’m not going to hazard a guess in if they will or will not renew. The — I think it’s encouraging that they asked for a capital commitment last time —

Wendy Simpson
And they’re spending it.

Clint Malin
And they’re spending it. As I mentioned, we have $2 million we’ve funded to date, so I think that’s a positive sign. That’s a positive sign, but even if Brookdale chooses not to renew this, there’s been capital that’s been put into the buildings, which is a positive. Performance has been strong in the Brookdale portfolio. It has come down a little bit, obviously in the pandemic, but overall, that portfolio has done fairly well. I think it might be more of a strategic decision for Brookdale to the extent they want to renew or not. The buildings we have with them are in

multiple states. The product type we have with them is a core product in our portfolio, so, it's not like we have assets that are — that differ from what they operate on a larger basis in our company. So, at this point, we're in contact with Brookdale and on our next call, we should know what decision they will be making on that.

I do have the number, Juan, on the units for Senior Lifestyle. It's 1,456 units.

Juan Sanabria
That's great. I appreciate the time. Thank you, guys. Good luck.

Wendy Simpson
Thank you.

Clint Malin
Thank you.

Operator
The next question will come from Jordan Sadler with Key Bank. Please go ahead.

Jordan Sadler
Thank you. Good morning, everybody. So, I wanted to just take off where Juan left off on Brookdale, if I could, for a second. Just can you offer up any additional color surrounding the renewal options? So, renewal option #1, the window is open through April 3, and I think that's the four-year renewal —

Clint Malin
That is correct.

Jordan Sadler
— extension. And then so what — so if they don't exercise, let's say by April 30th, can you just explain options #2 and #3?

Clint Malin
If they don't renew by the third time, we would go through with a leasing initiative to find additional operators to take over those properties.

Jordan Sadler
And they basically have to let you know. They say they have to let you know by April 30th, whether or not they're renewing for 12/31/21.

Clint Malin
When, Jordan? We actually moved forward the renewal time to April 30th. In the previous leases, it was June 30th. We gained a couple additional months to facilitate transfers, if needed.

Jordan Sadler
Okay. But you're — so essentially whether or not they renew for four years or five years or ten years or what have you, they still have to — they have to let you know by April 30th?

Clint Malin
That is correct.

Jordan Sadler
Okay. Thanks for clarifying. And then separately, as it relates to SLC, some helpful color there. Can you — and I know there's quite a bit that's not yet complete, and so I understand the sensitivity there. Could we just focus in on the 11 of the 23 for a second, maybe give us a sense of what the effect is year one rent reduction is — on those 11, if you just sort of applied a pro rata reduction?

Pam Kessler
Yes, we don't — Jordan, this is Pam. Since those are in a master lease with Senior Lifestyle, we don't allocate rent, so however for your model, however you want to allocate it would be just the best way, I guess —

Jordan Sadler
Right. So would — is there anything that — I mean, so would a pro rata allocation not be appropriate for any reason?

Pam Kessler
Well, no, I guess you have to do some sort of proration. We're still in the process of working with Senior Lifestyle on what the wind-down analysis looks like and what cash would be coming back to LTC in 2021 for rent. And that would be the best number to use, but we're still working on that right now, so I don't have that for you. But as soon as we do, we will update you.

Jason Sadler
Okay, that's fair. And then on the remaining — or others that are scheduled to be transferred, can you just run me through those dates again? It was — so of the 12, you're transferring five, and those, you expect to transfer four of those by the end of 1Q and one by the end of 2Q?

Clint Malin
Yes.

Jason Sadler
And are those to a new operator or existing?

Clint Malin
One would be to an existing operator and there'll be another — a new operator to our portfolio.

Jason Sadler
Okay. And then, lastly, on the ones that are being sold — well, actually, just let me just — let me ask you this. What are the coverages that the 11 were underwritten to?

Clint Malin
I would say we have — we've targeted — well, year one's a little challenging because of — I mean, there's stimulus, there's — or there's COVID expenses. It's a little hard to look at year one. We're going off —

Jordan Sadler
Okay. I just looked at it.

Clint Malin
But basically we've provided coverage. We've looked sort of long term at this, to be able to include coverage so these new operators have basically — to give us credit support going

forward. So that's how we've looked at the releasing aspect, is setting the rents where there is coverage for the operators, but the new leases are adding into their existing lease related to these assets.

Jordan Sadler
Okay. Oh, lastly, just on Senior Lifestyle, I know they haven't paid January or February. What's the — how do you guys think about — I know you guys sort of — they're fully utilized, the line of credit and a letter of credit and the deposits, how do we think about the likelihood or ability to pay anything incremental from here?

Clint Malin
We're hopeful there'll be additional rent coming from this, and I think from Senior Lifestyles' standpoint, they look at this a little bit similar to the joint venture that we did a wind-down with them previously, in that they're trying to not be exposed from a liability standpoint. You can get a management fee and turn the additional funds over to us, but as Pam mentioned, they're going through a wind-down analysis right now to see what those liabilities are. So, we are hopeful that there will be some additional rent once that analysis is complete by Senior Lifestyle to see what the cash position is.

Jordan Sadler
And do you have additional recourse, either personal or corporate?

Clint Malin
We have the letter of credit, which was the security and some deposits, but this is — I mean, Senior Lifestyle has been cooperative in this process, facilitating the transition, the sales, and that's our general understanding of how this would be unwound and the economics where that would reside, and to the extent there's positive cash flow from operations or from additional stimulus funds, that those funds would come to LTC.

Jason Sadler
Okay. Thank you.

Clint Malin
Thank you.

Operator
The next question will come from Connor Siversky with Berenberg. Please go ahead.

Connor Siversky
Good morning, everybody. Thanks for having me on the call today. The first question is just high level and asking this in reference to what's going on in the Midwest right now with the weather. I'm just wondering if there's a worst-case scenario you've made for occupancy take-up in the coming months and what that looks like?

Clint Malin
I mean, I think it's a crystal ball. There's not a lot of visibility on that, and that's why we haven't given guidance. So, it's — we'd be — speculation pertaining to that, but when you look at some of the positives out there regarding the vaccine rollouts, Johnson & Johnson, there was some news out today regarding Pfizer's vaccinations, about the effectiveness of a single dose as well as, I guess, apparently studies provided that the vaccines can be stored at not the extreme temperatures that initially were indicated. So, there's some positives in regards to the vaccine

rollouts and the acceptance from the resident populations that hopefully provides some and census so, but those are anecdotal, and this is unfolding as we're all watching this on a quarter-by-quarter basis.

Wendy Simpson
Yes, NIC put out some data that showed — that layered on cases in — I think it's senior housing and skilled nursing on top of the vaccine rollout, and I think that was encouraging for the industry, showing a sharp decrease in new cases coinciding with the vaccine rollout, so that is, I think, a positive. If that continues, that will mean, hopefully, that we've troughed here in occupancy, but we're not quite willing to call that yet.

Pam Kessler
Well, Clint and I were on a call yesterday with the operator who is taking three or four? Three of the Senior Lifestyle buildings, and there was only one incident, and I think it was an employee who had COVID, so, those three buildings are COVID-free, so that is a great touchpoint for the industry.

Connor Siversky
That's helpful. I appreciate the color there. And then one last one for me — excuse me if I missed this — for the 12.4% of rental income that you earn in 2021, part of that's Brookdale, part of that, I believe, is the skilled nursing facility that Clint mentioned. And then for that other operator, that other lease, can you provide any color as to what the coverage is and how conversations may be progressing on that end?

Clint Malin
Sure. Well, it's actually been — it's more simple. It's just Brookdale and the one building we have for sale. So, that's all of the renewals in 2021. It's just two —

Connor Siversky
Okay, then —

Clint Malin
— just the Brookdale lease and then a single-asset lease, which, as I mentioned, is under contract for sale.

Connor Siversky
Great. Thanks for clarifying. That's all for me.

Clint Malin
Thank you.

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

Michael Carroll
Yes, thanks. Clint, can you provide some color — or, Pam — on the wind-down of the Senior Lifestyle portfolio? And I know what you were talking about is that you're going to expect to get some rent when that's completed. I guess, what's the timing of that, or what has to go in to get that completed?

Clint Malin
Well, we were hoping it was yesterday. It's still processing. You could look at any trade payables, there's — they've got PTL to account for as far as going through the transition. There is lease equipment, things like those. If that — if a new operator doesn't assume those leases — or it could be termination costs. There's insurance aspects to consider. So, Senior Lifestyle has been working on that and I think at this point, we're expecting the initial look at that next week to see where that is. So, we should have more color on our next call regarding additional rent pending …

Pam Kessler
Pending stimulus funds.

Clint Malin
and stimulus funds too.

Pam Kessler
So —

Michael Carroll
Okay.

Pam Kessler
A couple of moving pieces there.

Michael Carroll
So is it in our — or is it — should we expect that there could be some rent payments in the first quarter of '21, or do all these transitions and/or sales need to be completed and that needs to be complete and buttoned up before you start to see some more rent coming in from the legacy's, you know, Lifestyle, on assets that they had?

Clint Malin
There's one — only one asset that we have with Senior Lifestyle that we would be transferring, whereby there would be a single asset where there would be — effectively support no rent in year one of the single asset lease, but everything else has rent associated with it.

Michael Carroll
Yes, I guess I'm — my really — or question relates to — is how long does it take to finish this? I know you said you're going to get your initial look next week. I mean, should we expect that you're going to receive some rents come — once this winds down and is completed in the first quarter, or do we need to see all the assets transitioned to new operators before they have the final numbers and are willing to start paying you that back-dated rent?

Clint Malin
Well, our hope is that we'll see it come in on a current basis.

Michael Carroll
Okay. And then can you talk a little bit about the other operator that you disclosed that you agreed to defer rent as needed through the first quarter of '21? I know there was about a $355,000 balance at the end of the year. I mean, what's the status of that operator, and was there additional rent deferred in January and February from them?

Clint Malin
There was some additional rent deferred in January and February, which Pam discussed this cost on those numbers. So, it did relate to that operator, but we were also encouraged that in Q4 and that operator paid back some of the deferred rent that they had taken. They had some lease-up assets in their portfolio, and that's what — part of the cause. We've seen this in our portfolio, buildings that had lease-up or value-add as far as trying to increase census, they stalled with the pandemic. So, this is what happened to this operator.

Pam Kessler
And of the $689,000 of deferred — net deferred rent I'd mentioned in the first quarter of 2021, about $560,000 related to that operator, so most of it came from that majority.

Clint Malin
The majority.

Pam Kessler
Yes.

Michael Carroll
Okay. And then just the last one for me, back to Senior Lifestyle real quick, and I know that there is some uncertainty on what you can provide on the breakout. Could you break out what% of the EBITDARM from that asset — from that portfolio related to those 11 communities, or is that something you can't provide?

Clint Malin
We haven't provided that information. With COVID expenses and some stimulus funds, it's a hard metric to look at, so we've not provided that information.

Michael Carroll
Okay. And could you provide it based off of it's — let's just say the 2019 run rate, the pre-COVID, or is that not comparable anymore?

Clint Malin
That's probably not comparable at this point, to be honest.

Michael Carroll
Okay. Great. Thank you.

Clint Malin
Thank you.

Operator
The next question will come from Rich Anderson with SMBC. Please go ahead.

Rich Anderson
Thanks and good morning out there. So, on the rent credit, the $1.3 million FAD impact, that all happens in the first quarter?

Pam Kessler
The majority of it, yes.

Rich Anderson
Yes. And is it the way it works that essentially you're — the credit total is $1.3 million, but then you recalculate the straight-line and that's why the GAAP revenue is a lower impact? Is that correct?

Pam Kessler
Yes. Yes, essentially for those that are on a GAAP basis, or on an accrual basis, yes. We have quite a few leases that are on a cash basis, yes.

Rich Anderson
I understand. Okay, great. And then as far as the process goes, there's no change to the actual escalators, right? I know we talked about it. I just kind of wanted to get it on record. It's just that's how you came up with the rent credit, but going forward, the escalations will continue off the original rent level.

Pam Kessler
That is correct.

Rich Anderson
Okay. Okay, just wanted to make sure. The — you know, Clint, you said you don't want to talk too much about coverages. It's not a reflection of current times and, of course, I get that, but 1.13 times on skilled nursing, excluding stimulus, is quite good, I would say. You should be perhaps quite proud of that, relative to other numbers that I've heard. That being said, it was calculated a quarter in arrears, of course, so you're about 400 basis points lower occupancy.

Do you have the math at your fingertips that would say, "Well, if we're 400 basis points lower in occupancy, and we were starting at 1.13, we're probably around parity now," or is it not that dramatic of an impact?

Clint Malin
We haven't done that analysis right now, Rich, but one thing that we have anecdotally heard from operators — and we've seen a little bit of this in our portfolio — that the skilled mix has trended up. Now, that may change with cases of COVID going down. So, I think it's hard to speculate as to what that — what the impact would be, but, no, we have seen that this occupancy between December and January stayed relatively the same. And you've heard the reduced incidence of COVID cases in buildings, your increased vaccinations as far as going through the three clinics, so hopefully those are all positive with the occupancy stabilizing.

Rich Anderson
Okay. Last question for me is do you guys know what the employee — the healthcare worker vaccine rate is? Has there been a hesitancy? Because we've been hearing that, that the patients and the residents are accepting it but not so much on the healthcare-provider side. Are you hearing the same thing? Do you have knowledge of what the rate is in your portfolio?

Clint Malin
Well, anecdotally we've heard that across the board, that staff acceptance is less than resident acceptance. So, when we gathered information from our operating partners for the occupancy data we provided in January, we requested information regarding the clinics and vaccination rates. So, we had, for example, we had about 70% — 60 to 70% of our operators provided information about the clinics, and with our — about 70% of our skilled portfolio reporting, 100% of those had gone through the first clinic, which was encouraging. And about 55% of that

reporting has gone through the second clinic but assisted living acceptance on the staff — I mean, on the resident level, based on reports from our operators. And the staffing was in the low 40s both for skilled and assisted.

Rich Anderson
That's — you know, hopefully that picks up, because that's the important part of the variable, I think. Last question, Wendy, you said you're not looking to change your underwriting metrics and it's a lot of uncertainty out there as it relates to external growth, and, of course, that's clearly understood. But are you getting reversed inquiries at all? I wonder — I'm just taking the temperature of the market — if people are coming to you and saying — and offering up assets or that perhaps aren't interesting to you, but it would be interesting to know if there's a motivated seller pool out there that's perhaps waiting to happen eventually when we have more visibility.

Wendy Simpson
We have had packages that — we've looked at some packages recently that are really in the first stage of looking at them, so I think we are going to be seeing some assets coming to the market in the spring and the summer. So, we're looking forward to being able to spend some of the money that Clint will be creating by selling some of the Senior Lifestyle assets.

Rich Anderson
Okay. Great. That's all I had. Thanks very much.

Clint Malin
Thank you.

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

Daniel Bernstein
Hi. Good morning. Just following up, I just wanted to, I guess, go back over the investment philosophy. Do you have to have — do investments have to be accretive on day one for you to consummate those? When you think about like the restructuring of the leases or the rents are set, well, and then there's high bumps and you're two, you're three thereafter. Would you take on deals that are structured like that where you don't have a lot of return on day one or year one, but you could see the upside in year two, year three from a lease standpoint?

Clint Malin
I think we look at that on a onesy-twosy basis, and probably preferable working with existing operators who we could put into an existing master lease, and in markets where they have a presence, and they understand the dynamics of the market and they have a strong ability to be able to move. We've actually looked at a couple deals with existing operators. Ultimately, it didn't work out, but where people have brought deals to us to try to underwrite, they got — the deals got pulled off of the market, probably a function of just pricing, but we would definitely consider those on a one-off basis.

Daniel Bernstein
But probably within more of your existing operator pool where there's already some credit protection?

Clint Malin
Yes.

Daniel Bernstein
Okay. And then, you know, just going back as well, some of the comments from your peers in terms of leading indicators towards move-ins — not move-ins yet, but towards leads, things like that, have you heard from any of your operators about those leading indicators and where those trends may be heading? Anything that would give us some confidence that seniors' housing occupancy could be rebounding in the second quarter or second half of this year?

Clint Malin
I would say that it's been a little bit muted. You've seen that the fourth quarter was a little bit challenged and there was — with the incidence of COVID over after the holiday season, a lot of focus was on that. So, I do think that operators have been very nimble in looking at virtual tours and trying to gain traction regarding lead generations. So, we have on a case-by-case basis, spoken with some operators that do see trending upward. Others have been flat, so it's anecdotal information in different parts of the country. It varies.

Daniel Bernstein
Okay. And then, turning back to skilled nursing, the same question of how are you thinking about the census of the industry? There's been a lot of talk as to whether home health has permanently taken any market share from skilled nursing and what that might mean. Do you have any view or sense of what that might look like going forward, now that COVID cases are coming back down and the elective surgeries are maybe going back up? Do you have an expectation that census will improve in skilled nursing, or is that just a little bit too soon to know what's going to —

Pam Kessler
No, we — yes, we do have that expectation, Dan, as electives start to get scheduled here. I know a lot were put on hold during the surge, but as those start to come back — I think it's too early to say whether home health has become a more permanent solution. Certainly there will be those higher acuity cases that it's not a permanent solution on, and maybe those are some of the —- or majority of the electives that have been postponed, because you could have a really high acuity discharge. You know it's going to be high acuity, and you postpone it because you know that patient can't go to home health, that they won't recover the same. They need 24-hour care.

So, I think it's too early to determine if the discharge patterns have been permanently altered. Right now we're — the conventional wisdom is that we'll — they'll trend back to normal, pre-COVID.

Clint Malin
And also, Dan, with that, think of the reimbursement model through PDPM. Obviously, that has migrated to look at caring for more complex care for patients, so skilled should be seeing, by and large, just more complexity in general. I think those are probably not viable discharges going into home care.

Daniel Bernstein
Okay. That's all I had. Thank you.

Wendy Simpson
Thank you, Dan.

Clint Malin
Thank you.

Operator
The next question will come from Omotayo Okusanya with Mizuho. Please go ahead.

Omotayo Okusanya
Yes. Good morning, everyone. So, I just wanted to go back to Jordan's prior — I'm sorry, Juan's prior question around Brookdale. And could you give us a sense of, again, what the current rent coverage is, so I can just get a sense of just what kind of resetting to, you know, market EBITDARM coverage ratios to get a sense of even if they renew, what the potential change in rents would be?

Pam Kessler
Hi, Tayo, this is Pam. So they have — it's just a straight renewal option. There's no rent reset there. They do have the option to take the rent credit that we've offered should they renew, so they would get a 50% reduction in their 2021 escalator like the majority of the rest of our portfolio. So, there's no — there would be — we would not anticipate a change in rents.

Omotayo Okusanya
Oh, okay, that's actually — okay, that's actually a very helpful clarification. Thank you. And then the second thing is, Wendy, I think in your opening comments, you did talk about the need for the government support, and you did talk a little bit about the sense of additional government regulation. Any sense at this point what shape or form that dictates, even if it's nothing that's been stewing yet, it's just maybe what the lobbyists are asking for from the federal government? Any insight would be helpful.

Wendy Simpson
Well, we believe that there'll be a stimulus core for the senior healthcare industry and that will come out of the $30 billion that was not allocated yet. I don't believe that the industry is looking for an addition — a specific allocation from the $1.9 trillion; however, in the $1.9 trillion that is currently being discussed, there is a lot of money for the states. So, depending on how the states will use that money to support their residences in the state, it might certainly help the skilled nursing industry. So, I think there's a good chance relative to the $30 billion that hasn't been allocated, to have some stimulus come out, and I think there's still some Level 3, Phase 3 money that hasn't been spent and is expected to be sent out later this month. So, I – there's probably a better opportunity to get some of the $30 billion than there is specifically to get from the $1.9 trillion.

Omotayo Okusanya
Gotcha. That's helpful. Thank you.

Wendy Simpson
Thank you.

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

Todd Stender
Hi, thanks. And, Clint, not to spend too much time on the Brookdale master lease, but are we talking about four facilities? I know you blended four separate leases together, but how many assets are actually in that master lease?

Clint Malin
Thirty-five properties.

Todd Stender
Okay, got it. And for the capital you've committed to date, are you generating a return on that capital? Are you getting the 7% right away, or that has to get rolled into the new lease once that renews?

Clint Malin
No, the capital commitment was made under the existing terms, and it's a current-pay yield.

Todd Stender
Understood. Okay. All my other questions have been answered. Thanks so much.

Clint Malin
Thank you.

Wendy Simpson
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 attending and listening to our presentation. As always, if you have additional questions, please give us a call. Have a great day, stay safe, and most of you, stay warm. Thank you. Bye-bye.

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