LTC Properties, Inc.

Third Quarter 2021 Analyst and Investor Call

October 29, 2021

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

Hello everyone, and a warm welcome to the LTC Properties Inc., Third Quarter 2021 Analyst and Investor Call. After today's presentation, there will be an opportunity to ask questions.

Before management begins its presentation, please note that today's comments including the question-and-answer session may include forward-looking statements are 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 K-10 dated December 31, 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.

Wendy Simpson

Thank you, Operator. Welcome, everyone to LTC’s 2021 third 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 am so pleased to be able to open our comments by saying we have successfully eliminated several ongoing operator challenges, executed on $46 million in new investments and have an active and healthy pipeline.

At the same time, the industry is recuperating from the incredible strain created by the pandemic. I have said before that our industry handled the unimaginable with grace and poise and is proving that seniors housing is a safe necessary component of our national network of healthcare in the United States.

While there are still some challenges to overcome, I continue to believe that the industry's strength and perseverance will help us navigate the new normal. In LTC’s portfolio, occupancy gains are continuing. vaccination rates among patients and residents remain high and the potential of the vaccine mandates among staff holds the promise of continuing to reduce the impact of COVID in our buildings. It seems the recovery has begun and should continue into the new year.

Before I get into our LTC specific discussion, I'd like to spend a moment discussing industry staffing. The problem is very real, but our operators are working constantly and creatively to find viable solutions. I have not spoken to an operator yet that has not had trouble finding and retaining qualified employees. Operators are turning away residents and patients due to the labor shortage and the resulting staffing challenges. We have heard from several operators that if not for the current labor constraints, they could increase occupancy. So, they are increasing wages and providing signup and retention bonuses to help meet this demand.

Additionally, in-person school is now open, freeing parents to be able to re-enter the workforce. COVID-19 related add-ons to unemployment insurance have expired, requiring a return to work for some to make up for that income shortfall. However, the child tax credit that most families are receiving and is proposed to be part of the build back better legislation will likely continue to provide public support sufficient enough to keep some people from returning to work.

On the plus side, it has been reported recently that Texas, where we own 34 properties, passed a bill to support long-term care in the state. The bill proposes $200 million in grants for skilled nursing and $178.3 million in grants for assisted living communities and other care based providers to help fund staffing recruitment and retention. We would love to see other states follow this example.

Government support for our industry is continuing. There is about $17 billion available for distribution to healthcare providers through Phase 4 of the provider relief fund, and another $8.5 billion available for distribution to rural providers through the American rescue plan. The portal for requesting aid closed a few days ago on the October 26 deadline. So, we anticipate receipt of funds by operators later this year at the earliest.

In a recent interview with *Provider Magazine*, Mark Parkinson, who has been a past guest center earnings calls said, and I quote, “The Delta variant has caused a pause in the financial recovery of the sector. Combined with increasing staff costs that we are already experiencing, we are going to need continued help from both the federal and state governments.” He believes that there is a bipartisan support stemming from the efforts made by providers throughout the pandemic, but that passing legislation in a divided Congress will make real change difficult, highlighting the need for actions that don't require congressional approval.

However, short of a new highly contagious variant or COVID surge, I truly believe that our industry is on more solid footing today than it has them since the pandemic began. I remain hopeful that some of the remaining pressures will continue to abate over the coming months.

Now, moving to our third quarter. Rent and mortgage interest income collections, excluding senior care and senior lifestyle, were 94%. We have received no new substantial requests for rent deferrals and abatements. With occupancy increasing and pent up demand for needs space care, we don't expect to see a big change in rent deferrals and abatements in the fourth quarter.

For the last several quarters, the requests we've received have been from the same small subset of operators and that has not changed. We do expect to continue providing some amount of relief until the occupancy gains become more permanent.

The senior lifestyle portfolio transition is complete with the exception of one building in New Jersey that is awaiting licensure, which we are expecting at any time. We have fully transitioned the senior care portfolio as well. With these challenges successfully addressed, we are excited to be working with new operators and solidifying relationships with current operators who have the resources and desire to stabilize operations and further grow occupancy.

As I mentioned earlier, we recently completed $46 million in investments and have built a healthy pipeline. We remain focused on shorter term cash flows, strategic deals, that have what we believe to be reduced risk profiles, and look forward to announcing additional investments over the next several months. We have ample access to liquidity to act on these opportunities to provide accretive returns for LTC and our shareholders.

We maintained our $0.19 per share monthly dividend by paying out $22.4 million in common dividends during the quarter to our shareholders. The payout ratio on our dividend, excluding non-recurring items was approximately 100% for the third quarter. If we used pro forma performance, including recently completed investments, the third quarter FAD payout ratio, excluding non-recurring items, would be approximately 96%. Although, this remains well above our preferred payout ratio of approximately 80% of FAD, we expect our 2022 FAD to improve with the additional revenue from the releasing of the senior care and senior lifestyle portfolios, which will help bring the payout ratio more in line with historical levels.

With respect to guidance, for the fourth quarter we expect FFO to increase approximately $0.02 to $0.03 per share, excluding non-recurring items from third quarter results. Please note this guidance does not include the recovery of any deferred rent or additional investments.

Now I'll turn things over to Pam.

Pam Kessler

Thank you, Wendy. Total Revenue decreased $701,000 compared with the third quarter of last year, resulting principally from unpaid rent from senior care and senior lifestyle, evaded and deferred rent and the sale of a property in Washington. The decrease was partially offset by the write off of straight line rent receivable balances in the prior year quarter. Rents received from releasing 18 properties and the senior lifestyle portfolio, completed development projects, an increase in property tax revenue, annual rent escalations, capital improvement funding and higher payments from Anthem.

Interest income comparable year-over-year. Interest expense decreased $751,000, mostly due to scheduled principal pay downs on our senior unsecured notes and lower interest rates on our line of credits, partially offset by a higher outstanding balance on our line of credit. Transaction cost increased $4 million related mostly to our settlement with senior care and related fees.

During the 2021 third quarter, we recognized a gain on sale of real estate of $2.7 million related to the sale of a skilled nursing center in Washington. In last year's third quarter, we recorded a $900,000 impairment charge related to a close assisted living property in Florida, which was sold in the first quarter of 2021 and received $373,000 in insurance proceeds for damage related to a property sold in the first quarter of 2020.

Net income available to common shareholders decreased by 1.2 million, primarily due to the previously discussed revenue decline and settlement and related fees for senior care. The decrease was partially offset by a prior year impairment charge and a current year gain on sale.

NAREIT FFO per diluted share was $0.45 this quarter, compared with $0.58 in last year's third quarter. Excluding non-recurring items, FFO per share was $0.55 this quarter, compared with $0.71 in the third quarter of 2020. The decrease excluding non-recurring items was due to receiving zero rent from senior care and senior lifestyle, abated and deferred rent and higher G&A expense. These decreases were partially offset by higher revenues resulting from releasing 18 properties in the senior lifestyle portfolio, completed development projects, mezzanine loan funding and lower interest expense.

During the 2021 third quarter, we funded a $4.4 million mezzanine loan and a $1.8 million mortgage loan. Additionally, we funded $2.8 million in capital improvement projects on properties we own. Subsequent to the end of the quarter, we funded to mortgage loans for a total of $39.5 million. Clint will discuss our investment activities in a moment.

During the third quarter, we borrowed $68.5 million under our unsecured revolving line of credit and paid $25.2 million in scheduled principal pay downs on our senior unsecured notes. Currently, we have $5.9 million of cash on hand, $465.6 million available on our line of credit with $134.4 million outstanding and $200 million available under our ATM. This leaves us with ample liquidity of $671.5 million. We have no significant long term debt maturities over the next five years.

At the end of the 2021 third quarter, our credit metrics remain strong with a debt to annualize Adjusted EBITDA for real estate of 5.8 times, an annualized adjusted fixed charge coverage ratio of 4.3 times and a debt to enterprise value of 35.3%. Proforma for recently completed investments, annualized Adjusted EBITDA for real estate was 5.7 times, the annualized adjusted fixed charge coverage ratio was 4.3 times and debt to enterprise value was 32.9%.

I'll finish my discussion with rent deferrals and abatements. As Wendy mentioned, excluding senior care and senior lifestyle, we collected 94% of third quarter rent and mortgage interest income. During the quarter, we provided $1.3 million in rent deferrals and $970,000 in rent abatements.

As Wendy noted, these deferrals and abatements relate to the same small subset of operators that have been receiving ongoing relief from us. As a reminder, senior lifestyle did not pay us rent in 2021. With the exception of the one property Wendy discussed, the portfolio is transitioned and we are receiving contractual rent from the operators who now lease these properties. Although senior care did not pay us rent in the third quarter, we do expect to receive rent from HMG as performance improves. Clint will provide more detail.

In October, we provided rent deferrals totaling $438,000 and rent abatements totaling $240,000. We have agreed to provide rent deferrals of up to $441,000 and abatements of up to $240,000 for each of November and December 2021. Now I'll turn the call over to Clint.

Clint Malin

Thank you, Pam. I'll start today by putting a bow on our senior lifestyle and senior care portfolios. As Wendy discussed, these portfolios have been fully transitioned, but for the licensure of one property currently operated by senior lifestyle in New Jersey. By and large, the properties in this portfolio have generated occupancy gains under new management.

In total, we have transitioned 18 of the senior lifestyle buildings with the 19th expect to be shortly. For these 19 buildings, occupancy for the month of December 2020 was 71% increasing to 75% for the month of September of 2021. I'd like to provide some additional colour on the six properties in the portfolio with market based rents.

At June 30, EBITDA excluding stimulus on a trailing 12-month basis for these six properties was $870,000. On a trailing three-month annualized basis, EBITDA excluding stimulus was $150,000. Occupancy for the month of December 2020 for these six buildings was 60% growing to 65% for the month of September 2021.

With respect to the 11 property senior care portfolio, in late August, we reached a settlement with senior care and Aubrey health services, under which LTC made a one-time payment of $3.25 million in exchange for cooperation and assistance in facilitating an orderly transition of the portfolio.

As of October 1, the entire 11 property portfolio was leased to an affiliate of HMG Healthcare under a one-year master lease with rent based on cash flows. When HMG commenced operation of the portfolio, we agreed to assume senior cares Medicare provider agreements and took on a known liability for stimulus funds received by senior care under the Medicare COVID-19 accelerated and advanced payment program. This assume liability is capped at $3.7 million. HMG is responsible for the repayment of this liability, which it will fund from cash flow.

LTC expects to collect rent sometime in 2022 as performance improves and the liability has been repaid. It is our intention to add the 11 properties to a master lease currently existing between LTC and HMG after establishing a stabilized rent rate during the first lease show. We also agreed to provide HMG a $25 million secured working capital loan maturing on September 30, 2022. Our strong balance sheet allowed us to provide this loan on an expedited basis to mitigate the timing risk of HMG using a third-party lender. This portfolio is based in Texas. As Wendy mentioned earlier, the state recently announced an additional $200 million in support for snips.

Next, I'll provide an update on our most recent development projects that are now operational. Weatherly Court in Oregon, which is operated by Field Senior Living, saw occupancy rise to 45% at September 30, up from 36% at June 30. For Ignite Medical Resort in Blue Springs, Missouri, grew occupancy to 90% at September 30, up from 83% at June 30.

Now, I will discuss our portfolio numbers, with the caveat that we don't believe coverage is currently a good indicator of future performance at this time, given the pandemic and the challenging environment it creates. Before I detail our coverage numbers, please note that senior care and senior lifestyle no longer qualify for our same store portfolio given the transitions, so they are excluded from these numbers.

Q2 trailing 12-month EBITDARM and EBTIDAR coverage as reported using a 5% management fee was 1.06 times and 0.86 times respectively for our assisted living portfolio. Excluding stimulus funds received by operators, coverage was 0.87 times and 0.68 times respectively. For our skilled nursing portfolio, as reported, EBITDARM and EBITBAR coverage was 2.08 times and 1.61 times respectively. Excluding stimulus funds, coverage is 1.44 times and 0.99 times respectively.

Now, for some occupancy trends, which are as of September 30 and are for our same-store portfolio. Because our partners have given the data to us on a voluntary and expedited basis, the information we are providing includes approximately 98% of our total same-store private pay units, and approximately 90% of our same-store still nursing beds.

Private pay occupancy was 77% at September 30, 75% at June 30 and 73% at March 31. For our skilled portfolio, average monthly occupancy was 71% in September, 70% in June and 69% in March. As Wendy mentioned, we recently closed approximately $46 million in investments. The first investment was a $27 million mortgage loan for the purchase of a skilled nursing center in Louisiana by a regional operator new to LTC. The term is three years with one 12-month extension option.

The second investment was a $12.5 million mortgage loan for the purchase of an assisted living and memory care community in Florida to be operated by a regional operator new to LTC. The loan term is for approximately four years and includes an additional $4.2 million loan commitment to be funded at a later date, subject to satisfaction of various conditions for the construction of a memory care addition to the property.

The third investment was a $1.8 million loan secured by a parcel land in Missouri. For the future development of a post-acute skilled nursing center. The loan term is for one year, we are currently negotiating potential real estate joint venture with Ignite for the development of the center.

The final investment was a $4.4 million mezzanine loan for the refinancing an independent living community in Oregon. operated by a regional operator new to LTC. The loan term is for three years with two 12-month extension options. In total, the combine weighted average term of the loan is 3.2 years, and the investments are expected to generate an annual interest income for approximately $3.5 million.

Our pipeline remains healthy. It's a nice mix of opportunities, including for private pay and skilled nursing, and with regional operating partners both new to LTC and existing. In total, our near-term pipeline is valued at more than $100 million. Although sales cycles remain elongated, and pricing for some properties does not accurately reflect what we believe is their true value, we remain optimistic in our ability to complete additional accretive investments. We are keeping our focus for now on structured finance deals.

As Wendy and Pam commented, we have sufficient liquidity and flexibility to provide strong regional operators with creative financing solutions. We continually strive to provide options to operators who are looking for long term relationships with the ability to grow. This has been a hallmark of our investment strategy, and one that we plan to continue.

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

Wendy Simpson

Thank you, Pam and Clint. What I'd most like you to take away from this call is that while the pandemic certainly caused strife in our industry, I believe we are firmly in the midst of a recovery. While I cannot predict exactly when we'll return to pre-pandemic levels of operations, we are seeing continuing signs that give us hope. Occupancy is increasing, demand for needs based care is growing and we're once again making strategic investments.

It has not been easy getting to this point, but I couldn't be more proud of our industry, operators and employees for the grip they have shown since started the pandemic. As our confidence continues to grow, we look forward to providing operators with the financing solutions they require to serve the nation's most vulnerable population. We are well positioned to take advantage of favorable industry demographics, and we'll focus on engaging with more and more regional operators to further strengthen our portfolio for the long term.

We may be relatively small, but we are stable and secure. We’ve built a balance sheet capable of seeing us through what has been a difficult period. Now with a recovery in process, we plan to use our resources to return to growth in 2022.

Operator, we're ready to open the call to questions.

Operator

Thank you. Our first question comes from Juan Sanabria from BMO Capital Markets. Juan, please go ahead.

Juan Sanabria

Hi, good morning. Thank you. I was just hoping you could give us a little bit more colour or insights about how you're thinking about the go forward earnings run rate. You talked about, I believe it was $0.02 or $0.03 of FFO growth in the third quarter.

Can you break that down between the external investments and then any incremental pickup from senior care and senior lifestyles? Maybe more importantly, how you think about how that number should trend into 2022 as we start to think about exiting this pandemic period?

Pam Kessler

Sure, Juan. The pickup comes from external investments, because the third quarter had the assumed leases in there or the new leases. So, it is external investments. As Clint mentioned, we have a healthy pipeline that we're hoping to execute on over the next 12 months. So, I think for us, the message is we're cautiously optimistic returning to growth.

So, when we give guidance, we don't put any additional investments in our assumptions. So, the $0.02 to $0.03 doesn't include anything other than what we've already announced. So, I guess, if you're asking if that's a good run rate absent anything else happening, I think so.

Juan Sanabria

Okay. Then just anything happening, just curious on your comfort level, I don't know how you want to frame it, 1 to 10, 1 low, 10 high, that we're not going to have other hiccups. You kind of touched on labor at the outset. It seems like despite occupancy improvements with some of your peers' tenants, that labor may be caused a bit of a strain and caused one specific tenant to go for incremental deferrals.

I'm just curious on your thoughts about that level of confidence about the need for any other deferrals, given the labor unknown and how that may impact occupancy at this point.

Pam Kessler

Well, where we sit right now, we're fairly confident. Like we said, the rent support we've been giving to this small subset of operators has been constant for the past three quarters. Although there are labor pressures, some operators are able to pass through rent increases that are helping that. The government has given more support, as Wendy and Clint talked about.

So, where we sit right now, we're fairly confident, but the world is ever changing and there are a lot of unknown things that can crop up. I'm sorry if I sound like I'm hedging my bets, but my crystal ball is very opaque right now. Where we sit right now with all of the knowns, fairly confident.

Juan Sanabria

Okay. Then just the last one for me, any sense of what the labor cost line is for your operators? I don't know if it's different for skill versus seniors housing, I mean, you see some of the headlines in the hourly increases that are being passed through across the economy are very high on a percentage basis, but just curious how the operators are thinking about their budgets for 2022 and what that labor cost line could be on a per cent basis. Any guidepost that you can help us with would be much appreciated.

Clint Malin

It's front and center for all of our operators and what's happening and does it go to the budgets for 2022…

Pam Kessler

Which is happening right now. They budget in the fourth quarter.

Clint Malin

So, as an example in Texas, this grant that was passed to help that was some of that will be a benefit to the operators in Texas. In Michigan, they had some similar support they provided on increasing the reimbursement component for skilled nursing. So, when we spoke to other operators, staffing is on the forefront and they're looking at how they address it with agency, bonuses, COVID is definitely the second item in line on issues that are being discussed, but there's business to do.

It’s a needs based business, and they're being creative trying to find ways to make this work. There’s damage on the private pay side. People are experimenting and working through rent escalations to offset some of those costs. Through the government stimulus on scale, that's helping at this point in time. So, we'll have to wait and see what happens in 2022, but it is something everybody is hyper focused on.

Juan Sanabria

Thanks for the time.

Clint Malin

Thank you.

Operator

Thank you, Juan. Our next question today comes from Jordan Sadler of Keybanc Capital Markets. Your line is open. Please go ahead.

Jordan Sadler

Thank you and good morning. So, I just wanted to dig in a little bit deeper trying to understand the run rate and the trajectory, but more specifically on HMG. Any insight you can offer in terms of what that cash flow contribution might be? I know they're paying rent based on cash flows. I assume you're assuming nothing in the fourth quarter, but maybe just if you can sort of point to how that cash flow contribution, cash flow base rent contribution might flow through next year? That’d be helpful.

Clint Malin

Sure. You're correct for the fourth quarter, there would be no rent included in that. So, I'll give you some numbers here, Jordan, just for context. Again, this is the reason why we did a cash flow lease because performance has declined. So, I'll give you the numbers as of August for different run rate timeframes, and I'll give you comparable numbers back to 2018 and 2019 on an EBITDAR basis.

So, for context, the trailing 12 EBITDAR for August this year was $10.4 million. On a trailing three annualized basis, it was $6.5 million and on a T2, it’s $3 million. Then, we obviously transferred on October 1. Historically, going back to 2018, and 2019, at that point in time, senior care was in the process of their first bankruptcy. The T12 EBITDAR back in 2018 was $17.5 million, and $17.3 million in 2019.

So, what we've done is we've positioned ourselves with a strong regional operator in Texas, whose management team has members that are familiar with these assets. We positioned ourselves in a cash release during this first year to participate in improvement as it happens. So, that's sort of some context of what this has done recently and historically.

Jordan Sadler

Just to give us an idea, what's the structure of this cash flow of base lease? What percent are you entitled to. How does it work?

Clint Malin

They get their management fee and we participate in an all cash flow.

Jordan Sadler

A hundred percent of the management fee.

Clint Malin

Correct.

Jordan Sadler

What's the management fee?

Clint Malin

Five percent. It's a 5% fee was used in these EBITDAR numbers that I provided.

Jordan Sadler

Okay, interesting. So, there is actually going to be a pretty significant contribution come 1Q, essentially, once the $3.7 million liability has to be repaid first?

Clint Malin

Correct. In my comment, I mentioned that we paid back from cash flow.

Wendy Simpson

That's why we're not expecting any revenue for this year.

Jordan Sadler

Okay, but 1Q, given the most recent trajectory you described, there will be something.

Clint Malin

It'll be sometime in 2022. As to which quarter falls into, I mean, that that's a crystal ball looking forward. T2 is obviously dropped off a lot, but we've structurally put the lease together where we can benefit from upside and cash flow. The intent is then as we mentioned in my comments too, put this into the long-term master lease, once we feel both LTC and HMG can comfortably set what rent would be going forward.

Jordan Sadler

The T2 was $3 million you say?

Clint Malin

Correct. That is correct.

Jordan Sadler

Okay. So, as you describe the transition from T3 to T2, was that a loss of census, rising expenses? Is that sort of a Delta issues or is that transition issues?

Clint Malin

I would say transition issues. Occupancy stayed relatively stable. That's when we were negotiating the settlement agreement. I imagine that took a lot of time and resources on the senior care side. So, we have seen an uptick in agency usage and the P&L's on these buildings. So, we're hopeful that HMG, who has been a Texas based operator, to normalize and reduce the agency usage that's been on the expense side.

Jordan Sadler

Did you give the occupancy for the quarter?

Clint Malin

I did not. I can do that as well just from a competitive standpoint. So, for December 2020, it was 57% and September of 2021 is 56%.

Jordan Sadler

Going back to August 19, was this a stabilized portfolio once upon a time, I assume?

Clint Malin

Twenty-eighteen was 72% and the same for 2019.

Jordan Sadler

Okay, that's really helpful. I just had one more. I don't want to leave Pam out here. So, the leverage has ticked up quite a bit as you've had some of these deferrals and abatements. Obviously, these could transition, understandably. So, it'll come back around, but you've also been investing at the same time. What are your thoughts around leverage right now and how you expect it to sort of progress throughout next year?

Pam Kessler

Yes. Fair enough question. As we noted, leverage has picked up, and especially at the end of the quarter with the borrowing for the investments that we've made subsequent quarter end. As you noted and we talked about, as HMG begins to pay on their lease and senior lifestyle properties that are also on cash flow leases pay, leverage should come down. We generally look to fund all new investments with a mixture of 70% equity and 30% debt. That's been historically what we've done. So, that should not surprise you. We have not changed our stance on that.

Jordan Sadler

Okay. Is there an appetite to do equity down here? I guess it would be sort of the follow up.

Pam Kessler

Well, when we do investments, if you're funding 70/30, that would imply, yes, that there would be some equity.

Jordan Sadler

Okay, to fund investments. Okay, thank you.

Pam Kessler

I wouldn’t be aggressive and fund all our new investments and whatever you assume for new investments next year with debt. Right now, looking out to sell anything. I mean, I think you're right in that the distinction over the past two years has been that we have funded investments with proceeds from sales. Right now, we don't have anything of size or substance that we're looking to sell. So, yes, I think equity assumptions are rational.

Jordan Sadler

Thank you so much.

Operator

Thank you, Jordan. Our next question is from Michael Carroll of RBC Capital Markets. Please go ahead, Michael.

Michael Carroll

Yes, thanks. Wendy, in your earlier comments regarding some of the late labor pressures regarding operators turning away patients due to the lack of labor and taking care of those patients, is that comment related to skilled nursing facility only or is that including seniors housing also?

Wendy Simpson

It’s both of them. It’s not everybody, as we did an analysis of the 11 properties that we transferred to HMG. HMG and LTC had a conference call after they had looked at all of them. In some markets, they didn't have labor problems, and other markets, they had labor problems. So, I would say generally, across the United States, there are labor problems, but there are pockets where there aren't any.

We've had some of our skilled nursing operators for our assisted living operators say they closed the floor and are not opening a floor until they can get more labor. Everybody is having to deal with this and real salaries haven't gone up for many years. So, I mean, this is a catch up that's causing us a whiplash, but it will flow through the system.

Michael Carroll

Okay. Was it more prevalent, though, with skilled nursing facilities? If you talk to 10 skilled nursing facility operators, how many of them said that they're turning away patients? I'm assuming it'd be fewer on the seniors housing side?

Wendy Simpson

Yes.

Michael Carroll

Okay, great. I guess, Pam, the quota coverage ratios in the supplements that includes the stimulus funds, or the Coronavirus stimulus funds, I think that you termed it. Now, are those funds amortized over a period of time in those calculations? Or, is it counted when the cash is actually received from either the federal or state governments?

Pam Kessler

No, it's amortized. They pull it in over a period of time. So, there's an amount sitting on balance sheets that haven't been closed through the income statement yet.

Michael Carroll

So, then when does that get amortized? If they receive The Cares Act fund in the beginning of the year, how long does that amortize throughout these coverage statistics?

Pam Kessler

It offsets their losses related to the Coronavirus losses. So, if there's a decrease in occupancy. So, it's hard to estimate how long it will be amortized through. Each property is individual. So, I would guess over the next 6 to 12 months. Every operator uses a different methodology to bring it in.

Clint Malin

This is the reason why in the comments, coverage right now is very challenged to look at for these reasons.

Michael Carroll

Yes, that makes a lot of sense. The deferred rent repayments that's included in the straight-line rent forecast on Page 20 in the supplement, how confident are you that those are going to get paid back on time? I mean, I guess maybe a more general question, the rents that you deferred, I believe, that you expect to repaid over the next several years, I mean, when do those repayments start? How confident are you that those repayments will occur as scheduled or as planned?

Pam Kessler

The repayments that are forecasted on Page 20, we're fairly confident of. There are other repayments that are not until 2023. Right now, everything we've put in we're fairly confident about.

Michael Carroll

Okay, great. Thank you very much.

Operator

Thank you, Michael. We have a question from Daniel Bernstein of Capital One. Please go ahead, Daniel.

Daniel Bernstein

Good morning. I just want to ask the kind of the broader risk and snips beyond labor. It seems like the 2% sequestration holiday, I guess, ends the end of this year. There's may be the enhanced FMAP could end too if the COVID emergency is not extended.

There's a 5% claw back for 2020 that probably gets delayed or phased in but it's there too. So, when you talk to operators, when you talk to AHCA, do you get a sense of where those items stand and if those are additional risks that we should be thinking about for '22 within the SNF space?

Clint Malin

You know Dan, that's always the risk in the skilled nursing industry is that sort of unknown. I think during the course of the pandemic and to look at how the government has stepped in and provided support for the industry, obviously, it is a risk. You look at examples of Texas recently passing some additional support for buildings, which is a positive.

So, it is definitely a risk that people are looking at. By and large, the staffing component is still the main item that's on the forefront of operators. That uncertainty regarding reimbursement has always been out there and continues to be out there. What's happened during the course of the pandemic and the government's focus on it, there's a belief that there will be continued support.

Daniel Bernstein

Back to the labor component, I know there’s pockets of better labor or worse labor issues within the portfolio, but are you finding that maybe more rural areas are having more trouble staffing up facilities versus more suburban or urban areas?

Clint Malin

It's an interesting mix as far as pulling operators and finding, it's a combination. It really just depends on location and market and the uniqueness of every market. So, it's really hard to pinpoint it down to that one operator may say they're having a challenge in their urban markets and other operators say they have challenges in the rural markets. It's really a cross section.

Daniel Bernstein

Okay. One more question for me, I thought there were some purchase options in ’22 that could be exercised and provide some funds, I guess, to reinvest as well, instead of just using equity. Is there any sense of what purchase options could be exercised in ’22?

Clint Malin

We have one purchase option that it could potentially be exercised in 2022 on two assisted living communities in California. We’re engaged with that operator and working through that right now. You can imagine, with more senses as that just broadly for assisted living, being able to exercise that purchase option and get the appropriate financing may not be the ideal environment to do that. So, we're actively engaged with that operator in regard to any assistance we can provide or in maybe extending that out for a longer period of time. So, it's something we're actively talking about. That really is the only purchase option of size in 2022.

Daniel Bernstein

So, probably I should pull that asset sale from our models. It’s still up in limbo but it’s looking less likely.

Pam Kessler

Yes, pushed out but I wouldn’t have it in 2022.

Daniel Bernstein

Okay, that’s good. That’s all I had. Appreciate it. Thanks.

Clint Malin

Thank you.

Operator

Thank you, Daniel. We have a further question from Jordan Sadler of Keybanc Capital Markets. Please proceed, Jordan.

Jordan Sadler

Hi guys. I just wanted to follow up on the working capital loan, the $25 million. What are the terms or what is the rate on that loan? How should we expect that to be drawn from a timing perspective? Where is it now? Where will it be throughout next year?

Clint Malin

Sure. So, Jordan, since we set up as a cash release, the interest rate we provided is 4% on those funds, and it's a one year loan that ties to the lease term. It's being drawn down on a monthly basis. So, there's a typical transition, as far as provider agreements getting in place the assumption of the Medicare provider agreement. So, it's really just bridging that.

I mean, we expect that by the time, you know getting into 2022, majority portion of that will be drawn down, but then it'll be taken out through a traditional ABL lender. We did the financing, really just when we struck the deal on the settlement, we didn't want to introduce a third party that was slowed down in the transition. So, it made sense for us to minimize execution risk and provide that to HMG.

HMG was actually engaged with a third party lender already on this, but the timeframe was tight. It just made sense for us. We had the balance sheet strength to do it, and made sense for us to extend that working capital one, which is secured by the accounts receivable and has—a component of it, it has a personal guarantee of the principles HMG attached to it. So, it's a standard working capital loan.

Jordan Sadler

Got it. Then the other question I have for you is just the thought process and strategy behind the structured financing, structured finance investments, right now.

Clint Malin

It’s something we've been talking about for a number of quarters now. It's really just reflective of us, analyzing the market and seeing what opportunities exist. As we see price points on existing assets where they're not stabilized, paying up for an asset, especially we invest in triple net structure, we don't participate in that upside. So, to buy something now that’s not cash flowing and wait for the upside, it's a little more challenging to structure.

So, we've seen opportunities where we can get low in the capital structure, there's actual cash flow. It just seems to be at lower risk and more opportunistic to selectively do that. Also, we're at a point where, as Wendy mentioned, cash flow strategic investments, given the transition from senior lifestyle to senior care, we think it makes a lot of sense to focus on that at this point in time. Obviously, as things normalize our intent would be to get back to a blend of long term triple net leases, plus, various aspects of some loans and structured finance deals.

Wendy Simpson

We're in effect arbitraging our low cost of capital, our low cost of borrowing. So, we're replacing some of the FAD that we're having to delay, or HMG and the senior lifestyle assets as they return. So, when they return, hopefully, these investments that we've made will pay off and we'll use that cash to do more long-term investments.

Jordan Sadler

None of the loans you've made, the 46 or what have you, this most recent crop, none of them are loan to own in particular?

Clint Malin

No, that is correct.

Jordan Sadler

Okay. In the context of my question, I know you guys have been sort of focused here and the rationale for it previously, but I guess the context of my question is during this call, with your comment about feeling better about sort of the industry and the position than you have at any other point during the pandemic, which makes sense. That's sort of the context. Not that I haven't been paying attention for the last few years. Okay, I guess that's it. That's all I've got for you guys. Thank you.

Wendy Simpson

Thank you.

Operator

Thank you, Jordan. We have no further questions. So, I would like to hand you back to Wendy Simpson for any closing remarks.

Wendy Simpson

Thank you all for joining us on this call. We look forward to talking to you after our fourth quarter, our year end results. Have a great weekend.

Operator

This concludes today's call. Thank you all for joining. We hope you have a great rest of your day. You may now disconnect your line.