LTC Properties, Inc.

Fourth Quarter 2021 Analyst and Investors Call

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CORPORATE PARTICIPANTS

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PRESENTATION

Operator

Hello, and welcome to today's LTC Properties Incorporated Fourth Quarter 2021 Analyst and Investor Call.

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 the LTC Properties' filings with the Securities and Exchange Commission from time to time, including the Company's most recent 10-K dated December 31, 2021. LTC undertakes no obligation to reserve or update these forward-looking statements to reflect events or circumstances after the date of this presentation.

Please note, the event is being recorded.

I would now like to turn the conference over to Wendy Simpson.

Wendy Simpson

Thank you, Operator. I'd like to welcome everyone to LTC's 2021 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.

The seniors' housing and care market continues to deal with the impact of COVID-19 pandemic, but shows signs of sustainable recovery. Therefore, I continue to believe that a bright future for our industry remains intact. As I speak to you today, I remain cautiously optimistic. I am excited by the opportunities we are seeing to put our capital to work, with several investments completed in the fourth quarter and others planned for 2022.

I also am grateful that the Omicron variant seems to have had a less significant impact on society, with cases and hospitalizations now trending down from the highs we saw late last year and earlier this year. It is my hope that this downward trend will allow our operators to continue the recovery process. We are incredibly proud of how the seniors' housing and care community came together to find effective ways to care for our nation's most vulnerable population during the pandemic. Although we are not completely out of the woods, I steadfastly believe that as an industry, we will persevere and come out of this stronger than we were before.

We will successfully adapt to whatever becomes the new normal. With the growing elderly population with ongoing needs for safe, engaging and compassionate care, the long-term outlook is positive. In the shorter term, operators continue to manage through staffing shortages with many identifying ways to address the challenge. Since we spent a good deal of time on this issue last quarter, I won't belabor the point, but did want to recognize that census could remain somewhat constrained until the staffing problems are mitigated. Until that time, Federal and State assistance is still needed and would be of some help.

At a recent industry conference in Miami, Mark Parkinson, President and CEO of AHCA and NCAL, spoke to the audience about the road ahead for long-term care providers. Among other messages, he stressed the need for continued Federal and state support until census recovers and the need for structural Medicaid changes to create stability and accommodate changes in the labor force.

In 2020, when the pandemic began, the Federal government took several steps to assist our industry. Among others, the sequester was eliminated, Medicare payments changed, the three day stay rule was waived, additional Medicaid support was made available to states and billions of dollars were deployed as part of the Provider Relief Fund. In 2021, the focus shifted to state-run assistance, totaling approximately $10 billion. Currently, at the Federal level, there is about $8 billion remaining to be deployed to providers who have not yet received their Phase 4 payments with a target completion for total distribution by the end of March.

At the State level, virtually every State's Phase 1 has allocated some amount of money to providers from each State's stimulus funds and from the extra Medicaid reimbursement provided by the Federal government, among others. The hope is that in 2022, we'll see an additional $10 billion in aid. In many states, the extra money is tied to the Federal public health emergency, with states like California, North Carolina and Texas, among others, providing substantial daily Medicaid add-ons for as long as the public health emergency remains in effect.

It is currently extended to the middle of April because by rule, it can only be extended for three months at a time. Mark believes that through substantial lobbying efforts, the public health emergency could remain intact until census fully recovers with some optimism that it will be extended in April for at least another three months.

Speaking to LTC specifically, we closed on $103.3 million in investments in Q4, including future funding commitments that are embedded in the closed transactions total. For all of 2021, we invested $109.4 million and disposed of assets for net proceeds of $44 million, which resulted in a gain of sale of $7 million. We continue to have an active and healthy pipeline moving into 2022, the value of which is just north of $110 million, including a $25 million transaction we expect to close by the end of the month.

With occupancy increasing, private rates going up and pent-up demand for needs-based care, we don't expect to see a big change in rent deferrals and abatements in the first quarter, but do continue to anticipate providing some amount of relief until occupancy gains become more permanent.

Our former Senior Lifestyle portfolio transaction is virtually complete. We still await licensure for one building in New Jersey. The delay has been purely administrative in nature at the state level, and we have no reason to believe that the transfer will not happen in due course. Since the transition of the former SLC properties, the new operators of the buildings have adapted to the current market and are seeing some occupancy increases.

I'd like to quickly address Anthem as we continue to receive questions about the health of our portfolio with them. They have made considerable progress since we first reported their challenges in 2017. We are proud of the strides they have made. In 2020, Anthem paid us annual rent of $9.9 million, increasing to $10.8 million in 2021.

Our expectation is that they will continue to pay annual rent of $10.8 million in 2022. We anticipate setting more permanent rents in the next 12 to 24 months, depending on performance and as occupancy returns to pre-pandemic levels. I would also note that Anthem is now expanding their footprint, which we see as a positive sign. At the end of last month, Anthem agreed to manage nine memory care communities across several states, including four states new to them.

As I discussed earlier, our pipeline remains robust as we've continued to work towards enhancing relationships with existing operators and building relationships with new operators who have the resources and desire to grow. During the quarter, we closed on three mortgage loans. Pam will provide more details later in the call. We continue to strongly believe that these types of investments, which are shorter in duration, represent cash flow strategic deals with what we believe to be reduced risk profiles. Additionally, the shorter durations of these investments can act as an inflation rate hedge, which is important in today's market.

With our solid balance sheet, we have ample liquidity to quickly act on opportunities, and we are doing just that. We maintained our $0.19 per share monthly dividend during the quarter with a payout to Shareholders of $22.4 million. Our FAD payout ratio decreased from the third quarter to 93% in the fourth quarter and was 94% for the year. Based on our fourth quarter investment activity and assumed rent payments from the former Senior Care and Senior Lifestyle portfolios, we anticipate that our FAD payout ratio will continue to decline during 2022 and approach our target of 80% by the end of 2022 or the beginning of 2023.

Our guidance for the first quarter anticipates FFO to increase approximately $0.01 to $0.02 per share, excluding nonrecurring items from both quarters' results. This guidance does not include the recovery of any deferred rent or additional investments other than the upcoming $25 million investments I already discussed.

Now I'll hand the call over to Pam.

Pam Kessler

Thanks, Wendy.

Total revenue decreased $6.8 million compared with last year's fourth quarter, primarily resulting from lower rental income related to the transition of the former senior care portfolio, lower rental income related to the re-leasing of the former Senior Lifestyle portfolio and abated and deferred rent. This was partially offset by annual rent escalations and capital improvement fundings.

Interest income from mortgage loans increased $1.1 million, resulting from loan originations. Interest and other income was comparable to the same quarter last year, as were interest expense and transaction costs. Income from unconsolidated joint ventures increased to $231,000 for the fourth quarter of 2021 due to the funding of a mezzanine loan. G&A increased by $556,000 related to greater incentive compensation in 2021 than in 2020 and higher noncash compensation charges.

Property tax expense increased $299,000 for the 2021 fourth quarter, resulting from the timing of certain operators' property tax escrow receipts and the payment of related taxes. Our provisions for credit losses increased $964,000 year-over-year due to mortgage loan and working capital originations during the 2021 fourth quarter. Upon origination, we record a loan loss reserve estimate equal to 1% of the loan balance. This reserve is amortized as the loan principal is paid down.

Net income available to common Shareholders decreased $4.7 million, primarily due to the revenue declines I mentioned earlier, partially offset by an impairment charge of $3 million recorded in the prior year's fourth quarter related to a memory care property in Colorado previously leased to Senior Lifestyle. Fully diluted NAREIT FFO per share was $0.56 in the 2021 fourth quarter compared with $0.78 last year. Excluding nonrecurring items, FFO per share was $0.59 versus $0.78 in the 2020 fourth quarter. The decrease, excluding nonrecurring items, was due to lower rent related to the transition of the former senior care and Senior Lifestyle portfolios, abated and deferred rent and higher G&A, partially offset by higher revenues resulting from mortgage loan originations and mezzanine loan funding.

As Wendy mentioned, during the 2021 fourth quarter, we originated three loans, totaling $103.3 million. The first was a $59.2 million mortgage loan secured by 13 assisted-living communities, 12 in North Carolina and 1 in South Carolina with an aggregate of 523 units operated by an existing LTC partner. This loan provides for an initial investment of $52.5 million and an additional commitment of $6.7 million for capital improvements and working capital at the community securing the loan. The loan bears interest at 7.25% with an IRR of 8% and matures in four years.

The second loan was a $27 million mortgage loan secured by a 189-bed skilled nursing center in Louisiana with a regional operator new to LTC. The loan term is for three years with one 12-month extension option and bears interest at 7.5%. The last loan was a $16.7 million mortgage loan secured by a 68-unit assisted-living and memory care community in Florida with a regional operator new to LTC. This loan includes an additional commitment of $4.2 million 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 loan has a yield of 7.75% and a term of approximately four years.

In total, the three investments are expected to generate approximately $7 million in interest income in 2022. During the quarter, we also funded $9.9 million of our previously committed $25 million secured working capital loan for HMG, the operator to whom we transitioned the 11 former senior care properties. Subsequent to the end of the quarter, we funded an additional $5.8 million. The loan has a current balance of $15.7 million with remaining availability of up to $9.3 million and a yield of 4% maturing on September 30, 2022. Clint will discuss our investment activity in greater detail shortly.

Regarding our former Senior Lifestyle and senior care portfolios, I'd like to provide some additional details on expected rents going forward. For the remaining six buildings in the former Senior Lifestyle portfolio, under two separate two year market-based rent leases, we anticipate receiving $45,000 in each of the first and second quarters, $340,000 in the third quarter and $450,000 in the fourth quarter. Our expectation is that we will set more permanent rents sometime in 2023. For the former senior care portfolio, we do not expect to receive any rent in the first quarter, but anticipate receiving approximately $1 million in the second quarter and $2 million in each of the third and fourth quarters this year from the 11 transition properties. As we move through the remainder of the year, we will be working toward amending and extending our HMG lease, which would include more permanent rents.

Moving to our debt activity, during the 2021 fourth quarter, we amended our unsecured credit agreement to extend its maturity to November 19, 2025, and reduced the aggregate commitment from $600 million to $500 million. The one year extension option and the ability to increase the aggregate loan commitment up to a total of $1 billion remains unchanged. The $500 million aggregate commitment is comprised of a $400 million revolving credit facility and $250 million term loans. The first term loan matures in 2025 and the second matures in 2026.

In connection with the term loan, we entered into interest rate swap agreements to effectively fix the interest rate on the two term loans at 2.56% and 2.69% per annum for their respective terms. We borrowed $76.5 million in the 2021 fourth quarter under our unsecured revolving line of credit. As of December 31, 2021, we had $110.9 million outstanding with $289.1 million available for borrowing. Subsequent to December 31, 2021, we borrowed an additional $22 million under our line.

During the quarter, we paid $15 million in scheduled principal paydowns on our senior unsecured notes and repaid an additional $7 million in scheduled principal paydown subsequent to the end of the year. As Wendy mentioned, during the quarter, we paid $22.4 million in common dividends. Presently, we have $5.2 million of cash on hand, $267.1 million available on our line of credit with $132.9 million outstanding and $200 million available under our ATM, providing us with ample liquidity of approximately $435 million. We have no significant long-term debt maturities over the next five years.

At the end of the 2021 fourth quarter, our credit metrics remained solid with a debt to annualized Adjusted EBITDA for real estate of six times, an annualized adjusted fixed charge coverage ratio of 4.3 time and a debt to enterprise value of 34.9%. Although our debt to annualized Adjusted EBITDA for real estate metric is higher this quarter than our long-term target of below five times, we anticipate this metric will trend lower during 2022 with increased rent from the properties previously leased to senior care and Senior Lifestyle, scheduled principal paydowns on our senior unsecured notes and pay downs on our line of credit from potential asset sales Clint will discuss shortly.

I'll close out my comments with rent deferrals and abatements. During the fourth quarter, we provided $1.3 million in rent deferrals and $720,000 in rent abatements to the same small subset of operators that have been receiving assistance from us. In January and February, we provided a total of $867,000 in deferrals and $480,000 in abatements. We have agreed to provide rent deferrals of up to $452,000 and abatements of up to $240,000 for March 2022.

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

Clint Malin

Thank you, Pam.

I'd like to start by providing an occupancy update on the former Senior Lifestyle portfolio. As I mentioned last quarter, we transitioned 18 of the 19 former SLC communities, with the 19th expected shortly. For these 19 communities, occupancy at December 31, 2020 was 71%, increasing to 78% at January 31, 2022.

Occupancy at December 31, 2020, for the 6 communities under two separate two year market-based rent leases was 60%, growing to 69% at January 31, 2022. For the 11 property portfolio that has been transitioned from Senior Care to HMG, occupancy for the month of January 2022 was 57%, which is flat compared to December 2020.

Pam already detailed our fourth quarter investment activity. I'll start by discussing the upcoming $25 million investment that Wendy mentioned as well as other recently completed transactions. The $25 million investment is for a mezzanine loan secured by five communities providing independent living, assisted-living and memory care, totaling 621 units in Oregon and Montana, a new market for LTC. The loan will have a five-year term with two 12 month extension options and will bear interest at 8% with an IRR of 11%.

Subsequent to the end of the fourth quarter, the operator of two assisted living communities we own in California with a total of 232 units exercised their purchase option on the buildings. We expect to sell them for $43.7 million by the end of the second quarter. The properties have a gross book value of $31.8 million and a net book value of $17 million. We expect to recognize an approximate $26 million gain on sale in the second quarter of 2022. Contractual rent for 2022 is approximately $2.8 million.

We also agreed to sell a 74-unit assisted living community located in Virginia to its current operator for $16.9 million, which we expect to close in the second quarter. It has a gross book value of $16.9 million and a net book value of $15.7 million. In connection with the proposed sale, the current operator will pay a $1.2 million lease termination fee, which is one year's worth of rent. We anticipate recognizing an approximate $1.3 million gain on sale upon closing.

Lastly, we expect to transition to memory care communities, including 88 units in Texas to an existing operator by the end of this month. The rent from the previous operator was $2 million per year. The new master lease will have a two year term with zero rent for the first four months. Thereafter, cash rent will be based on mutually agreed fair market rent. We expect to receive cash rent from these properties of approximately $600,000 during 2022 with more permanent rent set in 2023.

Before I move to our portfolio numbers, I'll discuss Brookdale. We recently had a very positive earnings report and whose current lease expires on December 31, 2022. They have until April 30 to exercise their renewal option. To-date, we have funded $4 million under a commitment we made available for capital improvements on the properties underlying the lease. We have granted an additional $2 million capital commitment to Brookdale, which is available in 2022.

Now I'll discuss our portfolio numbers with the usual 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. As I mentioned last quarter, the former senior care and Senior Lifestyle portfolios no longer qualify for our same-store portfolio given the transition. So they are excluded from these numbers.

Q3 trailing 12 month EBITDARM and EBITDAR coverage, as reported, using a 5% management fee was 0.99 times and 0.78 times respectively, for our assisted living portfolio. Excluding stimulus funds received by our operators, coverage was 0.8 times and 0.6 times, respectively. For our skilled nursing portfolio, as reported, EBITDARM and EBITDAR coverage was 2.06 times and 1.59 times, respectively. Excluding stimulus funds, coverage was 1.45 times and 0.99 times respectively.

Moving on to recent occupancy trends, which are as of January 31, 2022, and are for our same-store portfolio. Our partners have given this data to us on a voluntary and expedited basis. The information we are providing includes approximately 60% of our total same-store private pay units and approximately 91% of our same-store skilled nursing beds. Private pay occupancy was 80% at January 31, 78% at September 30 and 76% at June 30. For our skilled portfolio, average monthly occupancy was 72% in January, 71% in September and 70% in June.

As I said earlier, we are pleased with the rate at which we are building and strengthening our pipeline. Current opportunities total more than $110 million in value, span private pay and skilled nursing, are geographically diverse and include operating partners new to LTC as well as existing partners. The opportunities also span a number of vehicles, including acquisitions, development joint ventures, mezzanine loans and mortgage loans.

Our ability to get deals done, regardless of the vehicle makes LTC a strategic partner for operating partners who have a myriad of wants and needs. Our current investment strategy focuses on structured finance products, which began as a way to fill the void during the pandemic, but has become a creative and successful strategy.

Over the last two years, we have learned a great deal, enhanced our internal business development team and built a robust skillset around providing financing that meets operates exactly where they want to be. We have executed well against the strategy and we will continue to identify and close deals that allow us to utilize the expertise we've gained. We are extremely comfortable participating in the capital stack in this fashion as the deals provide solid interest income and lower balance sheet risk.

At the same time, these type of investments allow us to participate in premier communities being built, such as with Corso Atlanta and provide access to operators with whom we wouldn't otherwise be able to generate business. We still believe in more traditional triple-net lease deals, which we continue to identify, but these new investment opportunities provide us with the ability to deploy capital in new and meaningful ways for our Shareholders.

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

Wendy Simpson

Thank you, Pam and Clint.

It's been a busy fourth quarter and a busy start to the New Year. We are very proud not only of our operators who have withstood an extremely trying two years, but of LTC and what we've been able to accomplish. We've strengthened our portfolio, strategically deployed capital and through asset sales have generated additional capital that we can put to work for our Shareholders. Through the pandemic, we've continued to pay our dividend with no reductions, have developed new relationships with strong regional operators and have enhanced and solidified relationships with operators with whom we are currently working.

We have proven that we have built LTC to last, by protecting our strong balance sheet providing flexible financing solutions to those who are committed to serving the nation's most vulnerable population and by making sure our portfolio is managed by operators who can and want to grow. We look forward to this year as the recovery continues, and we continue to do what we do best, providing the right operators with the right financing for the right properties.

Operator, we're ready to take questions.

Operator

Thank you. Our first question comes from Juan Sanabria from BMO Capital Markets. Your line is now open. Please go ahead.

Juan Sanabria

Thank you. Good afternoon.

Just hoping, Pam or Wendy or Clint, you guys could talk about the confidence level of no material further degradation in cash flows. You had, it seems like a new operator in the memory care unit. The memory care provider was $2 million in annual rents come out. A few of your peers have talked about the tail risk, particularly around some of the skilled nursing tenants. Just curious on your confidence level that we've troughed here and rents will stay stable and coverages should improve here going forward.

Pam Kessler

(Inaudible) to call the trough. I think we have given very conservative numbers because of our uncertainty during 2021, the former SLC and senior care assets. What we've given you is what we expect. It's not what they expect to pay us. We're underestimating what we hope they'll be able to contribute. There are some upsides. The two properties that we're transitioning, we had a security deposit that we were using last year to sustain that $2 million rent. The operator just wants to be out of that market. We transitioned during this period, and those assets were in lease-up at the time that the pandemic hit.

We've talked to all of our operators and talked to basically, the more important—or the highest concentration of skilled operators. So far, they've been pretty confident for 2022. I would be really surprised if we had a material revenue hit.

Juan Sanabria

Great. Just as a quick follow-up to that. Are there any other tenants that you're using the security deposit that represent potential risk asset that we haven't discussed previously?

Clint Malin

No.

Wendy Simpson

No. No.

Juan Sanabria

Okay. The second question is the acquisition pipeline, Clint. I think you talked about it continuing to stay on structured finance predominantly, but a range of options. But just curious, about your confidence or not for more skilled nursing deals to come to market. If you could give us any sense of where the deals that are trading are trading at, like what kind of yields are we talking about and/or coverage metrics that are being underwritten for the assets that are out there that are transacting your confidence level or not that pricing will adjust at some point here going forward?

Clint Malin

Sure. Well, I think you're seeing two different markets. You're seeing a lot of older assets that have come to market, which is predominantly what has been in the broker community, and there's been a large appetite for those type of deals. Those they don't always get announced, but my guess is you're looking at cap rates. It's hard to give a cap because what run rate do you use to buy that. People are buying it on their belief in what they can do from a pro forma perspective.

Our interest is we have—as we've sold older skilled assets in our portfolio and we've worked on developing and bringing on new assets and investing in new properties, the yields on those differ. We're probably in the low 8% yield range for newer skilled nursing assets, which we would bring into our portfolio.

Juan Sanabria

Thank you.

Clint Malin

Thank you.

Operator

Thank you. Our next question comes from Rich Anderson of SMBC. Your line is now open. Please go ahead. Unfortunately we're not getting any audio from your …

Richard Anderson

What about now?

Operator

Yes.

Richard Anderson

Okay. Just fine.

Wendy Simpson

Hello.

Richard Anderson

Can you hear me, everybody?

Wendy Simpson

We can.

Richard Anderson

All right. Sorry about that. Where was I? What was I saying, there's is a fine line when we talk about the COVID wave declining and people getting back to life and so on. But you and your business don't have that luxury. You're always fighting the tape about getting continued support from federal and state sources. Do you get that same sense that perhaps the world around you is feeling better and getting back to business, but you guys just aren't able to do that? Is that the constant force that you're fighting at this point in time?

Wendy Simpson

Well, we're not fighting it at the corporate office, but our operators definitely are. I think, Rich, the important theme about …

Richard Anderson

What I'm saying, is the environment making it more difficult for them to get their hands on funds, is my point?

Wendy Simpson

Yes. It is. Well, to get their hands on funds and not have it go out in additional overpriced labor or inflation related to their supplies and food and things like that. But our operators that we've talked to believe that they'll manage through this. They're not really looking for the next government check to be put into their—

government subsidy check. Yes. They're looking for the government check for the business they're doing, but they don't seem to be as concerned as they were in the last couple of years.

Clint Malin

I think the belief, too, Rich, is that as government assistance subsides, people are going to have to look at going back to work and there's inflation as far as rent groceries. I think the belief is, hopefully, as we go through 2022, there's motivation for people to come back into the workforce, I think is the—how a lot of the operators are looking at it.

Pam Kessler

I think from a momentum standpoint, on the assisted living side, there's been fairly good momentum this year with occupancy increases. The fourth quarter and the first quarter of this year are a little muted because of the Omicron effects, and that was primarily on the labor side, so the increased costs. But as Clint and Wendy said if people get back to work, I think the expense side should rationalize a little more.

Then there's the rate increases on the private pay side which have been accepted so far in the market. I think residents or the families of residents understand increased cost and labor and increased costs across the board, and they understand a rate increase.

Clint Malin

I think agency usage and the cost of agency usage, which has skyrocketed, hopefully, that will moderate going forward, plus the reduced of usage of agency staffing will hopefully help that as well, Rich.

Pam Kessler

Yes, then on the skill side, there's been a lot of upstarts, too. There are increases in occupancy, which they've had, not at the same pace as senior housing. But it seems like every time they start to get some momentum, there's been a variant and boom. It's electives have been postponed and traditional sources of referrals have kind of been put on pause. That one has been a little more fits and starts. Hopefully, now that we have Omicron behind us, and there's not a new one that side will start to experience the same occupancy gains as senior housing.

Richard Anderson

Unfortunately, I'm hearing about this new Omicron stealth thing that's—well, we'll see how that plays out. But hopefully, it's a flash in the pan. The $10 billion that you're hopeful for in 2022, what are the source of that? Is that Federal? Or is that state funds? Or a combination?

Wendy Simpson

Both Federal government and states. Yes.

Clint Malin

Yes.

Pam Kessler

Yes. The first part is the—of COVID, the Federal government pushed out a lot of money directly. Then it's the second part as it's pushed to the states and the states have allocated, and the sates have add ons, yes.

Richard Anderson

Right, right. It's a pass-through, I would say.

Pam Kessler

Right. I think it's important in April that the health emergency has continued, though, because that's helped the skilled nurses quite a lot.

Richard Anderson

A question, it was mentioned staffing shortages, obviously, is the narrative around the world for you guys—around the country at least. You mentioned operators are finding ways to address it. Can you be a little bit more specific? What are some of the efforts that are being undertaken to address staffing shortages in your portfolio?

Clint Malin

Well, they are looking at wage increases, obviously, to compete, (inaudible). You have state initiatives such as Michigan, is providing an add-on specifically for wage increases, which is helpful. I know Michigan is looking at, as we understand it, trying to expand that beyond just direct caregivers, which would be a big benefit to skilled providers, trying to be flexible in scheduling and how other staff (inaudible) is something that operators have been focused a lot on how do they accommodate and attract workers through flexibility is a big item that we've heard operators talk about.

Because that flexibility can translate into more interest as far as how they step and their schedules, whether it's split, consecutive days, they’re really trying to listen to how they can attract labor through accommodating schedules.

Richard Anderson

Okay. Last for me. Clint, maybe you talk about some of the loan activity that you guys have moved to structured finance and building some expertise there. It's all well and good. But is that also a reflection of just less opportunity or interesting opportunity on the fee simple buy a real estate asset point of view? I'm just curious if the loan business is picking up because the bricks-and-mortar business is not as fruitful today.

Clint Malin

Well, to date, the challenge has been—the opportunities have been value-add. As we've had to provide rent assistance to some of our operators to go and buy—to acquire something that needs further rent assistance, has been more of a challenge. To date, because that's the case on acquisitions for the most part, we focused on the structured finance and mortgage loans, because we—if we're going at a reasonable loan-to-value or slipping into the capital stack, where there's a lot of equity ahead of us, we just think it's a better risk-adjusted return for now.

We're very active in the market. We're looking for opportunities for acquisitions. Hopefully, there'll turn in that. But it's a way for us to be able to meet companies that we otherwise wouldn't be able to generate business from which I mentioned in my prepared remarks. It just makes us more active. We've got a business development team that's out working with the broker community, looking for opportunities. We are hopeful that going into 2022 there will be actual acquisition opportunities.

Richard Anderson

Okay, good enough. Thanks very much.

Clint Malin

Thank you Rich.

Operator

Thank you. Our next question comes from Jordan Sadler of KeyBanc. Your line is now open. Please go ahead.

Jordan Sadler

Thank you, and good morning everyone.

Just wanted to circle up on a couple of the other items surrounding some of the transition properties. SLC, you guys touched on the six properties and the expectations surrounding those. But what about Randall and Encore, those portfolios? I believe there are bumps scheduled for the first quarter. Should we anticipate—so first, I think those guys are still on being recognized on a cash basis. If you could confirm that. Then second, should we expect that those bumps will push through in the first quarter?

Pam Kessler

Yes, thanks they are on—yes, Jordan, they are on a cash basis, and we have no reason to believe that they're not going to be able to pay their rent payments as scheduled.

Clint Malin

In the occupancy number that I gave, Jordan, that's for the entire—that includes Encore, Randall. We intentionally when we set rents, initially it was to increases associated over time to hopefully track to occupancy increases, which we are seeing as occupancy increases.

Pam Kessler

Yes. They've made great strides this year. They're halfway to stabilization. Those portfolios are transitioned in the low 70%, and now they're close to 80% occupied. The trajectory is very good.

Jordan Sadler

I heard those numbers. They seem pretty good. I think you said 71% up to 78%, Clint, by the end of January. Is that the right stat?

Clint Malin

That's correct.

Jordan Sadler

When was the 71% as of?

Clint Malin

As of 12/31/2020.

Jordan Sadler

Okay. They picked up some pretty good occupancy. Separate question. Those bumps should come in, and then the assets that are slated to be repurchased, I think we've sort of got a sense of at least the repurchase option on the two in California. What was the situation supporting the other $16.9 million sale? Why was that one sold?

Clint Malin

It was an investment we made a number of years ago with the intent of growing with this operator, and it just hasn't come to fruition during the course of the pandemic. You just don't see growth opportunities, and we're looking at evaluating our portfolio and where there may not be growth as Wendy mentioned, we're looking for operators that want to grow. We have an opportunity to sell that our initial yield on this investment was 7.5%, and we're effectively selling at a 7% yield.

It's an opportunistic situation where we have an operator that we don't see growth with and we can sell it for a little bit of a premium, recognize a gain, and we're getting effectively a better yield to redeploy the capital.

Jordan Sadler

That makes sense. The timing on that one is…?

Clint Malin

By the end of the second quarter, same as the two in California.

Jordan Sadler

Okay. Then lastly, just on the continuing sort of deferrals and abatements that are happening into the first quarter and the agreements already through March. Can you give us a little bit of a sense what type of tenant that is? Or what type of tenants that is? How many facilities it pertains to? If there's light at the end of the tunnel on those deferral or abatements?

Clint Malin

Well, I would say, as we've mentioned, quarter-over-quarter it's the same subset of operators, and it's all private pay. As we've completed our transition of SLC, completed the transition of senior care to HMG, as you can probably imagine, we're focused on this subset of operators to try to find a resolution in some capacity during the course of 2022. It is a focus of ours now to bring some type of resolution in this and move forward.

Wendy Simpson

We have no revenue for those assets. We have no revenue for those assets in our projections. That's an upside.

Jordan Sadler

Okay. You're fully—you are deferring and abating all of the rent related to these assets, not a portion?

Clint Malin

Yes.

Wendy Simpson

But as they recover, as everybody else is recovering, it's an upside for us.

Jordan Sadler

Are you getting information from these—so it sounds like you should probably pay, so I assume those are all seniors housing assets.

Wendy Simpson

Yes, it's all cooperative.

Clint Malin

Cooperative, yes.

Jordan Sadler

Can you give us a sense of what's happening with the occupancy on those?

Clint Malin

Actually, occupancy has been growing on both as of recent. That's a positive sign that there has been some upside on occupancy.

Wendy Simpson

They're both recovering now.

Jordan Sadler

Is there a level, like is it in the 70s or…?

Clint Malin

I don't have the specifics to provide on that, but they are from an operational standpoint, the cash flow being generated at the property level is covering operating expenses and a management fee.

Jordan Sadler

Okay. Thank you.

Clint Malin

Thank you.

Operator

Thank you. Our next question comes from Omotayo Okusanya from Credit Suisse. Your line is now open. Please go ahead.

Omotayo Okusanya

Yes, good morning, everyone. I just wanted to continue on Jordan's line of questioning around the deferrals and abatements. When we do take a look at the presentation, it seems like as of February, you have about $6.4 million of deferrals and about $5.8 million at least are in reference to just one tenant. Am I correct in that assumption? If so, who is that tenant because it's a decent amount of deferral?

Clint Malin

Well, as we said, it's a small subset of operators. I can appreciate wanting to us to provide the name, but providing a name of an operator, that just potentially causes more challenges at an operational level. We're actively engaged in trying to bring a resolution to the matter, but it is a small subset of operators that we are …

Omotayo Okusanya

Is it a top 10 tenant?

Wendy Simpson

No.

Clint Malin

No.

Omotayo Okusanya

Okay. All right. That's helpful. Then just indulge me a brief minute. There's a bunch of factions going on here. The occupancies are improving generally in the skilled nursing and senior housing portfolio, rent coverages are still a little tough at this point. Could you let us know what else—but you guys have said rent coverages are not to end all of a deal. Could you let us know what else you're looking at to just kind of ascertain tenant credit, and that you feel comfortable that you've seen the worst and you shouldn't see another major tenant issue, as Wendy alluded to earlier on?

Pam Kessler

Well, we're looking at the spot occupancy that we're providing on our calls and in our supplemental that we have said over the past two years is something we're more focused on than coverage, which is historical. We're talking about coverage from the third quarter, and here we are in February 2022. Occupancy and then obviously, talking to our operators.

Omotayo Okusanya

(Audio Interference) I'm sorry, Clint.

Clint Malin

I'd just say regarding staffing, too. Because now we're coming out of Omicron and we haven't seen a new variant that is taking its place. That was a big challenge just from a new staffing standpoint where people couldn't come into the buildings. That's a step right now as we are moving into 2022. Hopefully, that staffing aspect helps to stabilize. If you have—because we've heard some operators say staffing challenge led to a halt on admissions or slowing admissions. If you don't have the challenge from the variant affecting staff, maybe then allows you to further increase occupancy is something that we're hopeful.

Pam Kessler

Which really points to the second quarter of 2022. I think coverage for the fourth quarter of 2021 is going to be—we know the trend, and we know what happened in the fourth quarter. Then the first quarter of this year also. All the operators on both sides, skilled nursing and assisted living were hit really hard with increases from temporary labor from using agency. Normally, you don't see a lot of agency in assisted living, and we're hearing that from our assisted living operator. It was a tough first quarter. But given the occupancy increases, you say, okay, if you can keep building on those and your costs rationalize more toward a more normal level in the second quarter, you're looking pretty good.

Omotayo Okusanya

Got you. Thank you.

Operator

Thank you. Our next question comes from Michael Carroll of RBC. Your line is now open. Please go ahead.

Michael Carroll

Yes, thanks. I wanted to talk a little bit about HMG. I want to see if you can provide some color on how that transition has gone so far. It looks like you have a little bit more clarity you provided the rent that you're providing that you can receive in the second half of this year. Is that a fair statement that they stepped in and are doing a good job taking over that portfolio?

Clint Malin

Yes. The transition has gone very smooth cooperatively. There's a little disruption, obviously, just with the variant and staffing initially. But no, overall, think HMG has done a tremendous job of coming in. They're really effectively having to build culture in these buildings. The previous operator had a lot of different distractions in front of them. It's just part of that process of taking the HMG culture and working with the leadership teams at the facilities to be able to grow occupancy, their hiring processes, things like that.

It's been a very good process. I think HMG is doing a great job so far. Obviously, you can tell by the fact that we've given guidance on these buildings, which we've obviously worked with HMG on their thoughts as well. We're communicating what their belief is. It's a cash flow lease. Obviously, we're hopeful, as Wendy mentioned, that there will be more than what we've guided to, but this is a level which HMG feels like over the course of 2022 they can achieve. The fact that occupancy has stayed flat, we view as a positive because with the transition disruption, it could have gone down and it didn't. That's a positive.

Michael Carroll

Then can you talk about what went into those rent assumptions in the second half of the year? Does that just assume occupancy stays where it is today? Is that achievable if that happened? Or is there some growth that's assumed in those numbers?

Clint Malin

There is some occupancy growth in those numbers. It's reducing some of the costs, although there was a high level of agency usage that was being utilized before HMG came in. There was some agency usage they had during the last few months just because of the impact of the variant, but really rationalizing and reducing the agency usage will be an expense saving over 2022.

Michael Carroll

Okay. Then can you talk a little bit about the working capital loan? What was the draw for in the fourth quarter? Is that just typical start-up costs for them integrating that portfolio into their platform?

Clint Malin

Sure. No, well, the purpose of the AR line is there's typically a delay in Medicaid billing in the State of Texas, which is typical. You would typically have a lender that would provide that financing. In this transition, HMG chose not to bill for Medicare services, which you typically can do with the previous operator if both parties agreed to do that. But in this case, that was not circumstance because HMG didn't want the money going to senior care and then having to get money from senior care transfer of HMG.

We've effectively financed all revenues for Medicare and Medicaid. They have got their tie notices. They started billing on some buildings for Medicare. They're working with the managed care providers for Medicaid contracts. We think that probably in the March to April time frame, you're going to see a significant amount of funds flow, both on Medicaid and Medicare to pay down that line. That's really the purpose because there's no reimbursement at the moment on this, which we knew going in as we made the line available because to introduce a third-party lender when we were going through the settlement, it just added too much complication into the execution of the transition.

Yes, we expect to see pay downs in the March to April time frame to get back to a more normalized number. Then at that point, we can keep the line in place for a while or HMG can seek traditional third-party ABL lending for the receivables.

Michael Carroll

Okay. Then just last question. Pam, can you talk about how you're thinking about leverage today? I know I heard in your prepared remarks that with the sale proceeds that's expected in the second quarter and also the rent recovering, that number should drop fairly significantly. Are you comfortable deploying capital now using debt? Or how much capacity do you think that you have before that would be your concern?

Pam Kessler

Yes. As we go through the year and we get more revenue from these assets and pay down debt with the sales proceeds, we'll get back to that more comfortable 5 times level, and that's still conservative. We would fund with debt, like we typically do, and then permit out, either through sales of the ATM through equity issuances or we could term out long-term debt, take the short-term debt, long-term debt because with rising interest rates, I'm not sure how much you want to have floating for a long period of time.

But we look to 30% debt-to-equity ratio, and we've crept a little bit over that. Our efforts this year are going to be focused on getting leverage back to more our historical norm.

Michael Carroll

Okay, great. Thank you.

Operator

Thank you. Our last question is a follow-up from Jordan Sadler of KeyBanc.

Jordan Sadler

(Audio interference) memory care facilities that are being transitioned. Last quarter, I think you mentioned that there were no other issues per se in your crystal ball and yet it seems you were using the security deposit from this tenant to pay the rent. Can you maybe just tell us what played out over the last 90 days to cause you to change core and re-tenant the property?

Clint Malin

Well, we were working with the operator and …

Jordan Sadler

(Audio interference)—sorry.

Clint Malin

We're working with the operator and trying to evaluate what their action was as far as that they wanted to stay in or exit. That became clear as we got closer to the end of 2021 that they decided they wanted to exit. It's just that these buildings are not a core geography for them. We have learned over the course of the pandemic operators that don't operate in their core markets, it can present challenges. An operator that's not committed to the buildings in a certain market that it's not core to them, it's better sometimes just to move forward and take the lumps and transition to an operator that does operate in those core markets.

We're fortunate to have an operator in our portfolio where we can do that.

Jordan Sadler

Just from a modeling perspective, maybe this one's for Pam. You booked $500,000 from them in the fourth quarter. Then you're going to book zero in each of the first and second quarters and then $300,000 a quarter in 3Q, 4Q? Or how is it going to flow? I think you said $600,000 for 2022 and then you'll reset the rent for '23. But I just want to understand how the …?

Pam Kessler

Correct. Yes, that is correct.

Jordan Sadler

Or actually, you said zero for the first four months. How does the $600,000 come through? Did you book $500,000 in the fourth quarter?

Wendy Simpson

It ramps up a little bit. We booked $500,000 in the fourth quarter. Yes.

Jordan Sadler

It will be a May through December gradual ramp?

Pam Kessler

Yes. Yes, gradual.

Clint Malin

Good thing is we're seeing some occupancy increase in those properties, which is actually positive. Yes, it will be more towards the back.

Jordan Sadler

Okay, thanks, guys.

Clint Malin

Thank you.

Operator

Thank you. As there are no additional questions waiting at this time, I will pass the conference over to Wendy Simpson for closing remarks.

Wendy Simpson

Thank you, all, for joining us today. I hope you all have a great weekend, and we look forward to talking to you very soon because the first quarter ends shortly. Thank you. Bye-bye.

Operator

This concludes today's conference call. Thank you for your participation. You may now disconnect your lines.