LTC Properties, Inc.

2022 First Quarter Conference Call

April 29, 2022

CORPORATE PARTICIPANTS

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

PRESENTATION

Wendy Simpson

Welcome, everybody, to LTC's 2022 First Quarter Conference Call.

Joining me today are Pam Kessler, Co-President and Chief Financial Officer, and Clint Malin, Co-President and Chief Investment Officer.

Our industry is seeing evidence of the recovery slowly coming together, and we are hopeful about turning the corner on COVID. As a needs-based industry, I believe the long-term picture for our industry remains positive, based on solid demographics and fundamental needs for the care of our senior population. For the large majority of our industry, however, there was some distress felt in the first quarter as operators continued to deal with hurdles such as labor pressures and inflation. More recently, announcement of potential trimmed skilled nursing Medicare reimbursement levels added another layer of complexity for the skilled nursing industry.

However, occupancy is increasing in several markets, and temp agency utilization appears to be dropping. Several of our private pay operators have implemented rent hikes to offset higher labor and supply costs. None have reported pushback from residents or their families.

I believe that we are steadily moving toward a pre-pandemic environment.

LTC has operated successfully through decades of market and real estate cycles, and we have always supported our operators as we both surmounted industry challenges. This environment is no different. So far in 2022, we have successfully put capital to work for our shareholders, and our opportunities are more robust than they recently have been.

Clint will talk about our pipeline in more detail later, but to summarize, we closed approximately $77 million in investments, year to date, and have identified several additional strategic investments that will advance our growth.

I'd now like to share some stories from our operators with you. I've been spending time with them recently, both in person and virtually, and it has been very inspiring.

I'll start with our partner, HMG Healthcare, who recently presented their star of the year award to an employee at our Lone Star Rehabilitation and Wellness Center in Stephenville, Texas. Misty Griffin, who was chosen for the award among employees at 40 HMG centers, has been helping care for patients for more than two decades. What's especially noteworthy is that HMG recognized Misty's seniority as a former Senior Care employee. Misty was presented with a new car in recognition of her embodiment of HMG's values and mission of taking care of people. One of the reasons we are working with HMG is because of their great culture. Misty and this award exemplify that.

I recently toured Corso Atlanta with our operating partner Galerie Living. Billed as Atlanta's most luxurious senior living community, it definitely lives up to that description. It is truly spectacular. Our investment with Corso Atlanta demonstrates how mezzanine financing allows LTC to be part of a very large and impressive project, all while expanding our relationships with excellent regional operators and generating positive returns.

Finally, we are honored to be mentioned in a recent book written by Cindy Baier, CEO of Brookdale Senior Living, titled *Heroes Work Here: an Extraordinary Story of Courage, Resilience and Hope from the Front Lines of COVID-19*. The book provides a behind the scenes look at how Brookdale has navigated the COVID-19 pandemic. One of the things that makes this book so interesting to me is that LTC is featured as a flexible capital partner, something on which we pride ourselves. A few months into the pandemic, we worked collaboratively with Brookdale to consolidate four leases into one master lease. As Cindy says in the book, through collaboration, a focus on finding solutions that work for both parties, and a renewed commitment to our partnership cornerstone, we were able to achieve a positive outcome that protected Brookdale's interests in the midst of substantial uncertainty.

I'd now like to provide a brief update on Anthem. Last quarter I described the strides they have made since we first reported on their challenges several years ago. Since our fourth quarter call, we have learned that Anthem experienced an occupancy decline and cost increases, resulting from a surge of the Omicron variant in Q1, that may make it difficult for them to pay the full second quarter cash rent of $2.7 million.

Anthem has experienced similar short-term occupancy declines, resulting from surges of other variants, and rebuilt census (phon) rapidly in each case. We believe occupancy will recover, and with Anthem's expected receipt of additional stimulus funds, we still anticipate receiving total cash rent from Anthem in 2022 of approximately $10.8 million, in line with prior guidance. However, we are lowering the rent we expect to receive from them in the second quarter to $2.1 million, but anticipate they will be able to make up the shortfall over the remainder of the year.

We maintained our $0.19 per share monthly dividend during the quarter, with a payout to shareholders of $22.5 million. Our FAD payout ratio decreased from the fourth quarter to 89% in the first quarter. Based on our recent investment activity and assumed rent payments from the former Senior Care and Senior Lifestyle portfolios, we expect our FAD payout ratio to continue to decline during 2022 and approach our target of 80% by the end of this year.

Our guidance for the second quarter anticipates that FFO, excluding nonrecurring items from both periods, will be comparable to first quarter levels.

Before I turn the call over to Pam, I want to spend a moment discussing our enhanced ESG initiatives. Not only are we focused on these initiatives at the corporate level, having formed both a board and an internal working committee to address issues that are the focus of ESG and diversity, we are working with our operators to help them understand how they can achieve successes by addressing ESG issues in their operations. We are establishing a voluntary program aimed at helping our operating partners become good corporate stewards by adopting socially responsible and sustainable practices. The program begins with a free consultation with an expert third party to help operators better understand their options with respect to these initiatives, and will focus not only on remediation efforts but also on encouraging new methods for ensuring best practices, with LTC providing attractive financing to facilitate changes. An added benefit is that oftentimes these initiatives help reduce costs in the long term, something in which I know all of our operators are interested.

Now I'll hand the call over to Pam.

Pam Kessler

Thanks, Wendy.

Total revenue increased by $507,000 compared with the first quarter of 2021. Interest income from mortgage loans increased $1.7 million for the 2022 first quarter, due to loan originations. Interest and other income increased $442,000, primarily related to mezzanine and working capital loan origination, partially offset by payoffs. However, rental revenue decreased by $1.6 million, primarily due to the former Senior Care portfolio transition, partially offset primarily by increases in revenue from properties transitioned from Senior Lifestyle and the prior year straight line rent write-off.

Interest expense, transaction costs, and property tax expenses were all comparable year over year, as was income from unconsolidated joint ventures.

Our provision for credit losses increased $363,000 compared with last year's first quarter, primarily due to the mezzanine loan origination and additional funding under our mortgage loans and notes receivable. As a reminder, 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.

G&A increased by $775,000 due to higher incentive compensation, higher non-cash compensation charges, and increases in overall costs due to inflationary pressures.

Net income available to common shareholders increased $633,000 year over year, mainly resulting from loan originations and a prior year's loss on sale of real estate, partially offset by the net decline in rental revenue previously discussed and higher G&A expense.

Fully diluted NAREIT FFO per share for the 2022 first quarter was $0.60 compared with $0.62 in the 2021 first quarter. Excluding non-recurring items, FFO per share was $0.61 this quarter compared with $0.65 in last year's first quarter. The decrease in FFO excluding nonrecurring items was due to the net rental revenue decline and higher G&A, previously discussed, partially offset by higher revenues from loan originations.

During the first quarter, we funded a $25 million mezzanine loan secured by five communities providing a range of senior living services in Oregon and Montana. The loan term is approximately five years, with two 12-month extension options, and bears interest at 8% with an expected IRR of 11%.

We also funded $9.5 million of a previously committed $25 million secured working capital loan to HMG, the operator to whom we transitioned the 11 former Senior Care properties. HMG paid back approximately $800,000 in the first quarter, leaving a balance of $18.6 million at March 31, 2022. We expect HMG to pay down an additional $7 million in the second quarter, with further payoffs anticipated in the third quarter.

During the first quarter, we consented to the closure of a 48-unit memory care community we own, located in Castle Rock, Colorado. This community was transitioned from Senior Lifestyle to a new operator during the first quarter of 2021. The lease with the new operator, which was expected to generate rent of $150,000 in year two of the five-year lease, was terminated as of April 1, 2022. The net book value of this property is $5.3 million, and we intend to sell it.

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 leases, we anticipate receiving $30,000 in the second quarter, $370,000 in the third quarter, and $480,000 in the fourth quarter. These amounts are in line with our prior quarter's assumption. Our expectation is that we will set more permanent rents sometime in 2023.

The transition of the former Senior Care portfolio to HMG is slightly ahead of projections, primarily due to cost containment benefit projected in the third and fourth quarters. Accordingly, we continue to anticipate receiving approximately $1 million in the second quarter, but are now expecting higher rent in the third and fourth quarter of $2.5 million in each of those periods. 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.

As discussed on our last call, we transitioned two memory care communities in Texas, totaling 88 units, to a current LTC operator in the first quarter. The new lease term is two years, with cash rent starting in month five, based on mutually agreed-upon fair market rents. We recognized $282,000 of rent from these transitioned communities during the first quarter, and anticipate reporting approximately $370,000 of cash rent during the second half of 2022, which is unchanged from last quarter. During the first quarter, we entered into agreements to sell two assisted living communities and one skilled nursing center. Subsequent to the first quarter, we sold one assisted living community.

First, as previously discussed, Field Senior Living has exercised the purchase option on two assisted living communities in California, totaling 232 units. Accordingly, we entered into an agreement to sell the properties for $43.7 million. The properties have a gross book value of $31.8 million and a net book value of $17 million. We expect to close the sale within the next week or so, and we anticipate recognizing a gain on sale of approximately $26 million in the second quarter. During 2021, we recognized cash rent of $2.5 million and GAAP rent of $2.8 million from these communities. This represents an implied yield of 5.7% on the sales price.

Second, we entered into an agreement to sell a 121-bed skilled nursing center in California for $13.3 million. The property is under a lease that matures in July 2022, has a gross book value of $4.6 million and a net book value of $1.8 million. We anticipate recognizing a gain on sale of approximately $10.5 million in the second quarter of 2022. During 2021, we recognized cash rent of $833,000 and GAAP rent of $764,000 from this property. This represents an implied yield of 6.3% on the sales price.

Finally, subsequent to the first quarter, we sold a 74-unit assisted living community in Virginia for $16.9 million. The property has a gross book value of $16.9 million and a net book value of $15.5 million. In connection with the sale, the current operator paid us a $1.2 million lease termination fee, which equates to one year's worth of rent. We expect to recognize a gain on sale of approximately $1.3 million in the second quarter. This represents an implied yield of 7.1% on the sales price.

Also subsequent to the end of the first quarter, we acquired four transitional care centers in Texas with a total of 339 beds in mostly private rooms for $51.5 million. Clint will provide additional details shortly.

In summary, since the beginning of the year, we have invested $77 million to date. We have sold or are contracted to sell properties generating approximately $72 million in proceeds.

Moving now to our debt activity.

During the 2022 first quarter, we borrowed $47 million under our unsecured revolving line of credit. As of March 31, 2022, we had $157.9 million outstanding, with $242.1 million available for borrowing under the line. Subsequent to March 31, we borrowed an additional $52 million to fund the acquisition of the four transitional care centers in Texas, and repaid $18 million using proceeds from the sale of the 74-unit assisted living community in Virginia. During the quarter, we paid $7 million in regular scheduled principal payments under our senior unsecured notes. As Wendy mentioned, during the quarter, we also paid $22.5 million in common dividends.

Presently, we have $4.4 million of cash on hand, $208.1 million available on our line of credit, with $191.9 million outstanding, and approximately $200 million available under our ATM, providing us with ample liquidity of over $400 million. We have no significant long-term debt maturities over the next five years.

At the end of the 2022 first quarter, our credit metrics remain solid, with a debt to annualized Adjusted EBITDA for real estate of 6.1 times, and annualized adjusted fixed charge coverage ratio of 4.4 times, and a debt to enterprise value of 33%. Although our debt to annualized Adjusted EBITDA for real estate metric remains higher than our long-term target of below five times, we expect this metric to trend lower during the year, with increased rent from the properties previously leased to Senior Care and Senior Lifestyle, and as recent investments start producing revenue, along with debt reductions from principal paydowns on our line of credit from asset sales and scheduled principal paydowns on our senior unsecured notes.

I'll close up my comments today with rent deferrals and abatements. During the first quarter, we provided $1.3 million in rent deferrals and $720,000 in rent abatements, again to the same small subset of operators that had been receiving assistance from us. In April, we provided a total of $376,000 of deferred rent and $240,000 of abated rent. Further, we have agreed to provide rent abatements up to $240,000 for each of May and June of 2022. Additionally, we agreed to reduce expected rent from Anthem by $300,000 for each of May and June 2022.

I'd like to provide some additional detail about the operator who represents the majority of deferred rent, whose concentration is not in our top ten. During 2020, we consolidated our two master leases with this operator into one combined master lease, and agreed to abate $650,000 of rent and allow the operator to defer rent as needed due March 31, 2021. This combined master lease was amended during 2021 and 2022 to extend the rent deferral period through April 30, 2022. As such, the operator deferred rent of approximately $1.3 million for the first quarter of 2022 and $376,000 in April. As of April 2022, the deferred balance due from this operator is approximately $6.6 million. We have not recorded this as revenue, nor have we abated the rent. Our guidance does not include any revenue from this portfolio. We expect to address this deferred rent as we work with the operator toward a resolution for the portfolio.

Now, I'd like to turn the call over to Clint.

Clint Malin

Thank you, Pam.

I'll start today with a quick occupancy update on the former Senior Lifestyle portfolio, which includes 18 communities. Occupancy at March 31, 2022, was 83%, increasing from 81% at January 31, 2022, the last date for which we provided information. For the six communities under two separate two-year market-based rent leases, occupancy was 76% at March 31, 2022, up from 69% at January 31, 2022.

For the 11-property portfolio that has been transitioned from Senior Care to HMG, occupancy for the month of March 2022 was 56% compared to 57% at January 31, 2022. Given leadership changes made by HMG in several of our buildings, staffing issues that permeated the industry in Q1, and the transition of the buildings to HMG in the middle of the Omicron surge, we're comfortable with how HMG is addressing these issues, as well as their focus on cost containment. Reflecting this optimism, as Pam mentioned, we revised our 2022 HMG rent guidance up $1 million from what we previously anticipated.

At the beginning of this month, we acquired four transitional care centers in Texas that are being operated by Ignite Medical Resorts, a current LTC operating partner. These buildings include a total of 339 beds, primarily in private rooms, and are newer construction, which helps reduce the average age of our overall portfolio. The average age of these four buildings is just over four years. This fits well with our strategy of acquiring newer skilled nursing centers. Lease term on the Texas portfolio is 10 years, with two five-year renewal options. Beginning in the sixth lease year through the end of the seventh lease year, Ignite has the option to purchase the portfolio. We expect to receive rent of approximately $1 million in each of the third and fourth quarters of 2022, and approximately $4.3 million during 2023. The rent will increase each year by 2% to 4%, starting on the third anniversary of the lease, based on changes in the Medicare market basket rate. This was a strategic acquisition with a strong regional operator.

Before moving to our portfolio numbers, I'm pleased to announce that, subsequent to the end of the first quarter, we amended Brookdale's master lease to extend the maturity by one year to December 31, 2023. The renewal options under the new amended master lease did not change, except for the term of the first renewal option, which was reduced from three years to two years. Aside from the two-year option, the amended lease also includes a five-year renewal option and a 10-year renewal option. We also changed the notice period for the first renewal to November 1, 2022, through February 28, 2023. Additionally, we increased our $2 million capital commitment to $4 million, and extended its maturity to February 28, 2023. We also included an incentive for qualified ESG projects. During the first quarter of 2022, we funded $215,000 under the new $4 million capital commitment, with approximately $3.8 million remaining.

Now for our portfolio numbers, with my usual disclaimer 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 created. For clarity, recently transitioned properties, including the former Senior Care and Senior Lifestyle portfolios, no longer qualify for our same-store metrics, so they are excluded from these numbers.

Q4 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 0.88 times and 0.67 times, respectively. For our skilled nursing portfolio, as reported EBITDARM and EBITDAR coverage was 1.92 times and 1.46 times, respectively. Excluding stimulus funds, coverage was 1.57 times and 1.12 times, respectively.

Moving now to some recent occupancy trends, which are as of March 31, 2022, and are for our same-store portfolio. Our partners have given this data to us on a voluntary and expedited basis, so the information we are providing includes approximately 63% of our total same-store private pay units and approximately 89% of our same-store skilled nursing beds.

Private pay occupancy was 78% at March 31 and January 31, 2022, and 76% at September 30, 2021. For our skilled portfolio, average monthly occupancy was 73% in March of this year, 72% in January of this year, and 70% in September 2021.

Finishing up with our pipeline. As Wendy said, the pace of pipeline opportunities is robust and hasn't really slowed down since late last summer. Our pipeline is currently valued at approximately $70 million, spans private pay and skilled nursing, is geographically diverse, and includes operating partners moved to LTC as well as existing partners.

The opportunities are also varied in terms of financing vehicle, including development joint ventures, and mezzanine and mortgage loans. We believe strongly in LTC's ability to attract and close new opportunities, driven by our ability to provide creative financing structures to bring new operative relationships into our portfolio while enhancing current relationships. There is an incredible amount of capital in the market right now, and LTC is successfully competing by offering an array of diversified products that are tailored to the needs of operators who otherwise might not think of a REIT for their financing needs.

One such example was our $25 million mezzanine loan for the recapitalization of the five-property seniors housing portfolio we discussed earlier. This investment allowed the partnership owning the portfolio to buy out an equity fund. Another example is the $52 million acquisition we made in Texas, which broadens the footprint of an existing operating partner and deepens our relationship with Ignite.

We never take a one size fits all approach, because one size does not fit all. We can offer specifically tailored financing structures based on operator's needs, giving us a nimble competitive advantage.

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

Wendy Simpson

Thank you, Pam and Clint.

Our focus in 2022 is on a return to growth, and I believe we have taken, and continue to take, the steps necessary to position LTC as a capital partner of choice in today's market.

Before I turn the call over to your questions, the entire LTC team would like to send our deepest condolences to the family of Linda Gutman (phon), who recently passed away after a brave battle with cancer. Linda, an investment advisor, was a champion of our industry, and of LTC specifically, but more than that, Linda was a dear friend.

Operator, we're now ready for the questions.

Operator

Thank you.

Our first question comes from Steven Valiquette from Barclays. Please go ahead, your line is open.

Steven Valiquette

Great, thanks, hello, everyone, thanks for taking the question.

I guess needless to say, the CMS decision to put the clawback for PDPM into the SNF rate for '23 is obviously a bummer for the industry. I guess over the past 10 years or so there's been very little change from the proposed rate at the final rule each year. I guess my question is, do you think there's any chance that maybe the trade groups like AHCA or others can lobby to either reduce the size of the clawback, or maybe just convince them to spread it out over a few years? Just want to get your updated thoughts around all this. Thanks.

Clint Malin

I mean, there's definitely an active approach by AHCA to reach out and have operators provide comment during this comment period. We don't know what the outcome will be, but there's definitely a large effort in the industry to do that. If it could be pushed out over a number of years, I think that would be considered a positive, but there's a large effort under way, and we'll see where it goes, but a lot of people are participating in this. We've talked to operating companies in the space, and they are very actively involved, from encouraging employees to be able to write letters, and not just canned letters but letters providing specific detail and feedback regarding the impact of this proposed rule.

Wendy Simpson

The net of all of the changes this year is a 0.4% reduction, because they are market basket increases, but AHCA is really hoping that we can at least get the 4% reduction phased in over three years or so. They have good hope that we can do it, and from our operator calls, they're very very active in getting these letters out to CMS and all of their Congresspeople for each of the states. So, there's a possibility; but even with that reduction, as we've talked to our skilled nursing operators, they weren't presenting hair on fire situations, unhappy about it with the increase in costs and that sort of thing, but they're not panicked about it.

Steven Valiquette

Okay. So the way it stands right now, it sounds like the primary rebuttal is to just have it phased in, so, I guess it's definitely helpful just to hear that, so. Okay. I appreciate the color. Thanks.

Wendy Simpson and Clint Malin

Thank you.

Operator

Thank you so much for your question.

Our next question comes from Juan Sanabria from BMO. Please go ahead.

Valeria Loo-Kung

Hi. This is Valeria Loo-Kung on for Juan.

Our first question, how is your watch list trending relative to last earnings, especially after talks with tenants and with this updated outlook on government support levels? What confidence level you have that no new tenant issues would pop up, or that deferrals and abatements are going to increase going forward?

Clint Malin

Well, the encouraging item we see is, providing deferred and abated rent has really been to a small subset of operators. We spoke about Anthem in our prepared remarks. As we've seen COVID cases and surge decrease going into Q2 on the private pay side with rate growth is encouraging, so right now, as we indicated in our prepared remarks, we were optimistic going forward, or I think cautiously optimistic.

Wendy Simpson

Our abated rents for one of our operators—actually, the assets are cash flow-positive after a management fee. So it's not like the operator is cash constrained. It just is a change in attention from the operator, so we're not concerned about having to give additional abated rent from that operator.

Valeria Loo-Kung

Okay, and following up on that, no additional transitions either?

Wendy Simpson

No additional what?

Valeria Loo-Kung

Transitions.

Wendy Simpson

Transitions?

Clint Malin

Well, the only additional potential transition, as Pam mentioned in her prepared remarks, one of the operators with a small subset that we provided deferred and abated rent, we're working on a resolution to that. So, with that, we're working on a framework with that operator to facilitate a transition. So that is something that, as expected with having deferred or abated rent, there's got to be a resolution to that, so that's something that is the works. The encouraging points of that, as Pam indicated, the operator is not in our top ten, and our guidance doesn't include any revenue from this portfolio that, as Wendy mentioned, the portfolio is cash flow-positive, so we're hopeful toward the end of the year this portfolio will be contributing to that.

Pam Kessler

Yes, and for clarification, Wendy was talking about deferred, not the abated.

Clint Malin

Correct.

Pam Kessler

Right.

Valeria Loo-Kung

All right, got you, that makes sense.

Moving kind of to a different topic, with rates moving where they are, do you see that pricing for senior housing and skilled nursing is shifting too? Is there any sign that cap rates could move higher? Would that kind of push the strategy to maybe a traditional fee simple acquisition versus more of the loan stuff that you guys have been doing?

Clint Malin

We would love to see that. We were actively evaluating to be able to get that point. I'd say right now it's not there, at this point, but obviously we're hopeful that that is a market environment that we'd be able to participate in. But in the interim…

Pam Kessler

We've been thinking that for a while. Thinking, hoping.

There's still a lot of money out there. That's what's keeping, I think, the prices artificially high. They're not trading based on current NOI; they're trading on a future. So that's a hope note, and that's what we call it.

Valeria Loo-Kung

Got you.

Operator

We will now move on to the next question. The next question comes from Austin Wurschmidt from Key Capital Markets. Please go ahead.

Arthur Porto

Hi, good morning. This is Arthur Porto on for Austin. Just one for me.

Sort of trying to understand how big of a percentage of your investment pipeline is comprised of SNFs, and if the recent CMS ruling could potentially put deals on hold, or if you might shift the pipeline elsewhere as a result of the ruling.

Clint Malin

Sure. We only, right now, we really have one opportunity working on a SNF, which is a development project with Ignite, which is in our supplemental. We provided them a loan to acquire a piece of land in Missouri. So that would be a development project. So right now that would be the one skilled asset that we're currently—an our investment opportunity that we're working on.

Arthur Porto

Okay, and future opportunities, could that sort of change depending on what the SNF ruling, the CMS ruling sort of materializes …

Clint Malin

Absolutely it depends. I mean, we've indicated, on the skilled nursing side, we've really looked to invest in newer assets, and we had the unique opportunity where Ignite—we feel very fortunate that Ignite brought us in on this transaction to be their capital partner of choice. In that type of opportunity in the skilled space, private rooms, newer assets, strong regional operator, Ignite's done a tremendous job executing on their traditional care model, so those are opportunities we would very much hope to participate in.

Arthur Porto

Great, thanks.

Clint Malin

Thank you.

Operator

Thank you for your question.

Our next question comes from Omotayo Okusanya at Credit Suisse. Please go ahead.

Omotayo Okusanya

Good morning, everyone. Hope you are all doing well on the West Coast.

I wanted to drill in a little bit on the transition portfolios, Senior Lifestyle and Senior Care. Senior Care, it sounds like with HMG, you can correct me if I'm wrong, things are going well there, and you are actually expecting you may get a million more for rent than you were initially anticipating.

Am I understanding that correctly?

Clint Malin

Yes. That is correct.

Omotayo Okusanya

Okay. So that's additional revenue over and beyond the cash-out days you guys discussed in fourth quarter.

Clint Malin

It's in excess of the guidance we provided last quarter.

Wendy Simpson

Yes.

Clint Malin

So it effectively increases from the guidance …

Omotayo Okusanya

I'm sorry, say that again?

Clint Malin

Effectively increases our guidance from $5 million that we gave last quarter, now upping that to a total of $6 million for 2022.

Omotayo Okusanya

Great. Okay. Then, for the Senior Lifestyle, could you just talk a little bit about what's happening with those transition assets? It sounded earlier on like there was only one of those assets where you terminated the lease for the new operator.

Clint Malin

We have a couple of different—so we have a total of 18 buildings in total with former Senior Lifestyle portfolio, six of the buildings are under market-based quarterly rent resets. The other properties have fixed increases based on the various annual renewals on those. So right now, I gave information regarding occupancy growth that we're seeing in that portfolio, and we're very encouraged to see that there has been an uptick in occupancy across the portfolio of those 18 properties.

Wendy Simpson

And rent guidance remained unchanged this quarter. We're reaffirming what—the numbers will be flat.

Omotayo Okusanya

Okay. But it sounded from your commentary that there was one transitional asset where you had to—you ended up terminating the lease and selling the asset instead.

Clint Malin

Sure. There was one property that we had transitioned from Senior Lifestyle to an operator in Colorado. So building in Castle Rock, Colorado, was a freestanding memory care community. We transitioned that to a local operator, and they invested equity dollars to support operations to try to make improvements. I think that property has been challenged from a reputational standpoint over the years, and unfortunately this regional operator was not able to get the traction they were looking for, and didn't have the depth of equity to be able to continue to fund operations. So at that juncture, it really was at a point where it was better to close the property, and we're going to move forward with selling that asset. Pam mentioned our net book value is approximately $5 million. We'll look to sell it for highest and best use for the…

Wendy Simpson

(inaudible) no revenue.

Clint Malin

Right now we have no revenue in our model for that.

Omotayo Okusanya

So that asset, as I said, that's why the revenue (inaudible) change going forward. Okay. Thank you very much.

Clint Malin

All right. Thank you.

Operator

Thank you. Our next question comes from Michael Carroll from RBC Capital Markets. Please go ahead.

Michael Carroll

Thanks. I just wanted to drill into HMG a little bit. I know, Clint, you kind of talked about this in your prepared remarks, and the improved rent collection assumptions. I guess, what specifically, I guess, drove that rent increase? I mean, I'm assuming that they've been able to integrate that portfolio into their platform more seamlessly than we previously expected. Could you talk a little bit about that?

Clint Malin

Sure. When they took over the buildings, there was a high amount of agency usage. As you can imagine, there has been a lot of disruption in the Senior Care operational day. So it's really just going in and finding the appropriate leadership in the buildings. There was a lot of agency usage in these buildings. So it's really coming in from HMG's perspective, and bringing their culture into these buildings. Wendy spoke to HMG's culture in her prepared remarks. It takes time to be able to put that in place to transition. And so last time, based on where we were at, we guided to the $5 million. As we've worked with HMG to understand the progress they've made as far as occupancy mix, cost containment, that's where we got to the point we felt upping guidance by the million dollars for all of ’22 made sense at this point in time. We'll continue to revisit that on a quarterly basis, based on where HMG's at on a performance aspect.

Michael Carroll

When are you assuming that HMG can start paying cash rents? I know they've been a little backlogged by some of the Senior Care type stuff. I mean, should we assume that's going to happen in 2Q? I mean do you have that included in your guidance, or is this really a second half type thing?

Pam Kessler

We've included $1 million in the second quarter in guidance, and then $2.5 million in each of the third and fourth quarters.

Michael Carroll

Okay great, and then, I guess, Clint, you also talked about your starting to think about establishing a more permanent rent at those facilities. I mean how are those discussions going? I mean, should we learn more about this this next quarter, or kind of what's the thought process behind that?

Clint Malin

I would say in fourth quarter. Right now, we did a one-year cash flow lease with HMG, through the transition. So we will be working to extend that lease, and working on more permanent rents with HMG. So look for more guidance on that as we go through the year, but it'll probably be more towards the end of 2022.

Michael Carroll

Okay. Then related to the assisted living tenant that has the larger deferral: are they expected to pay rent sometime in the second quarter? I guess can you kind of talk a little bit about what's going on with that tenant? I know in the supplement in your prepared remarks, you kind of implied that you expect to resolve that deferral with that tenant when you kind of restructure the release or that relationship? I mean what does that mean, are you trying to do something bigger there, or what's the thought process behind that, that tenant?

Clint Malin

I spoke to this previous in Q&A. We have a framework with this operator to work towards a transition. So that's what I spoke about earlier.

I would not expect any rent from the existing operator, but we are trying to facilitate a transition on or before July. We're hopeful towards the end of the year. As I mentioned, this portfolio is cash flow-positive, and we do not have any rent from this portfolio in our guidance, but we're hopeful towards the end of the year that it could evolve into contributing to revenue.

We did the transition—one other thing on that, like, we go through the transition and we work with the new operator to evaluate which buildings we want to keep long term, and which buildings do we think makes sense to recycle capital. So there will likely be some asset sales resulting from this portfolio; but, as we've demonstrated in the past, we've been an advocate of recycling capital on assets, so there will likely be asset sales out of this portfolio, which would occur probably later in the year through the first quarter of ’23. But again, we don't have any guidance of revenue in our model for this portfolio.

Michael Carroll

Okay, and then with the currently rent that's deferred, is there any opportunity to collect that as you kind of close this down? Or is that something that's just going to be written off?

Clint Malin

No, we are working through the transition right now; but, as Pam mentioned, we have not recorded that into revenue, and so I wouldn't—we haven't debated it, we're actually actively going through the resolution right now, but I wouldn't count on that.

Pam Kessler

To clarify, there's no receivable on the balance sheet for that. It was not recorded. This operator has been on a cash basis.

Clint Malin

So it's a contractual obligation, but not a receivable on the balance sheet.

Michael Carroll

Okay, that makes sense. Then just last for me, the two transition memory care assets, I just want to make sure I understand this correctly. So they paid rent in the first quarter, and I think you put it out in the press release, the amount. You don't expect anything in the second quarter, and then I think the remaining $0.3 million is going to be collected in the second half of the year. Is that correct?

Pam Kessler

Yes, that's correct.

Michael Carroll

Okay, great. Thank you.

Wendy Simpson

Thanks.

Operator

Thank you, Michael, so much for your question.

At this time, there are no further questions, and now I'd like to pass back over to Wendy for any final remarks.

Wendy Simpson

Thank you all for joining us today. I wish you a very happy spring, with little COVID impact, and we'll talk to you in the summer. Thank you very much.