LTC Properties, Inc. NYSE:LTC

4Q22 Earnings Call

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Call Participants

EXECUTIVES

Wendy Simpson *Chairman & CEO*

Pam Kessler *Co-President, CFO & Corporate Secretary*

Clint Malin *Co-President & Chief Investment Officer*

ANALYSTS

Amin Jacare *Barclays*

Austin Wurschmidt *KeyBanc Capital Markets Inc., Research Division*

Juan Sanabria *BMO Capital Markets Equity Research*

Michael Carroll *RBC Capital Markets, Research Division*

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Presentation

Operator

Before management begins its presentation, please note that today's comments, including the question- and-answer session, may include forward-looking statements subject to risks and uncertainties that may cause actual results and events to differ materially. These risks and uncertainties are detailed in LTC Properties' filings with the Securities and Exchange Commission from time to time, including the company's most recent 10-K dated December 31, 2022. 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, and welcome, everyone to LTC's 2022 Fourth Quarter Conference Call. I am joined today by Pam Kessler, Co-President and Chief Financial Officer; and Clint Malin, Co-President and Chief Investment Officer.

2022 was a hard one positive year for LTC, and we anticipate much of the same for 2023. Last year, we invested more than $170 million using a wide variety of financing vehicles, making it our strongest investment year since 2015.

We were diligent and disciplined in rightsizing our portfolio through the disposition of assets that were either underperforming or are no longer core to our business and through transitioning challenged operators.

Our momentum has carried into the new year as we've taken steps to further strengthen and diversify our portfolio to drive sustainable future growth. Our business development team has already been extremely busy in 2023, closing investments totaling over $128 million year-to-date.

We are working to identify additional opportunities to fill the financing void many operators are now facing. Access to capital has gotten tighter from traditional sources, making flexible and creative REITs like LTC, more competitive in the marketplace.

We remain focused on bringing the right financing solutions to strong regional operators who are seeking growth capital in an uneven financial market. While some challenges remain, including labor and inflation, we are seeing positive signs in the industry data. Many of our operators appear to be gaining more stability as we continue to recover from the pandemic.

And some of our private pay partners are raising rates without much resistance -- receipt of funds from the employee retention tax credit is providing our operators with some breathing room, allowing them to repay deferred rents.

Additionally, realized and expected reimbursement rate increases in several states should benefit our skilled nursing operators and LTC in those areas. One particular headwind for skilled nursing, however, is the ending of the public health emergency, or PHE, on May 11, 2023. There are many benefits tied to the PHE, including the 3-day stay waiver with the ability to skill in place, and it remains unclear at present to what extent our industry will be impacted.

Our industry has done much great work to address pandemic-related challenges, and I believe we will continue to do so. We operate under the ethos of conservative financial management, which has served us well through many real estate cycles, -- we've been able to provide needed support to our operators throughout the pandemic while maintaining our regular monthly dividend.

Our FAD payout ratio was 77% for the 2022 fourth quarter, primarily due to non-run rate items, which represent the payment of Anthem's temporary rent reduction and HMG's rent increase, which Pam will detail shortly. Given that our fourth quarter results were positively impacted by the timing of these payments, we expect our FAD payout ratio to increase to the low to mid-80% range for the first quarter, excluding nonrecurring items, which is approaching our long-term payout ratio target of 80%.

Our guidance for the first quarter anticipates FFO, excluding nonrecurring items, will be between $0.67 and $0.68 per share. $0.05 of the decrease from the fourth quarter relates to the non-run rate items I mentioned, partially offset by increases from recent investments.

Going forward, we believe we will see continued progress in our business as operators find new ways to drive occupancy, increase revenue and lower cost. While the road has been long over the last few years, we are beginning to see operating improvements in our portfolio, although we can't say with certainty how long the 2023 road may be.

What we are certain of is that LTC is well positioned to not only withstand any remaining challenges but to continue our strategic and judicious growth.

Now I'll turn things over to Pam.

Pam Kessler

Thanks, Wendy. Total revenue for the fourth quarter of 2022 grew by $8.4 million from last year's fourth quarter, due in part to a $4.7 million increase in rental revenue. The increase in rental revenue was primarily related to higher rent received from transitioned portfolios.

Additional factors contributing to the increase included receipt of Anthem's second and third quarter temporary rent reduction, rent related to our 2022 acquisition of 4 properties in Texas and rent increases from completed development projects and annual escalations.

The increase in total revenue was partially offset by lower rent received due to second quarter 2022 property sales. Interest income from financing receivables increased by $1.4 million compared with the 2021 fourth quarter due to the acquisition of 3 skilled nursing centers in Florida. As a reminder, in

accordance with GAAP, we recorded this transaction as a financing receivable because we purchased the properties from an entity and lease the properties back to the same entity under a master lease with

a purchase option. Interest income from mortgage loans increased by $1.5 million, primarily due to mortgage loan originations in 2022 and in the fourth quarter of 2021.

Interest and other income increased by $858,000 from last year's fourth quarter, mainly due to a 2022 first quarter mezzanine loan origination and working capital originations, partially offset by loan payoffs. Interest expense increased by $1.9 million from last year's fourth quarter, primarily due to the origination of term loans in the fourth quarter of 2021, the issuance of $75 million in senior unsecured notes in the second quarter of 2022 and higher interest rates, partially offset by scheduled principal paydowns on our senior unsecured notes.

Our provision for credit losses decreased by $888,000, mainly due to a greater number of mortgage originations in the fourth quarter of 2021 and for the same quarter in 2022. 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

$527,000 compared with the 2021 fourth quarter, primarily due to higher incentive compensation and increases in overall costs due to inflationary pressures.

During the fourth quarter, we recorded $2.1 million of impairment losses as a result of our recoverability analysis related to a 70-unit assisted living community located in Florida and a closed memory care community located in Colorado.

Net income available to common shareholders increased by $5.1 million, primarily due to the net increase in rental revenue I previously discussed, higher revenues from loan originations and a decrease in provision for credit losses, partially offset by higher interest expense, the $2.1 million impairment charge and increased G&A expense.

Fully diluted NAREIT FFO per share for the 2022 fourth quarter was $0.72 compared with $0.56 for the 2021 fourth quarter. Excluding nonrecurring items, FFO per share was $0.72 compared with $0.59.

The increase in FFO, excluding nonrecurring items, was due to the net increase in rental revenue, higher revenues from loan originations and the decrease in provision for credit losses, partially offset by higher interest and G&A expenses.

We received rent of $3 million in the fourth quarter related to the 11 properties we transitioned to HMG in line with our expectations. $1 million of the rent received from HMG in the fourth quarter relates to prior periods and should not be included in a rental run rate for them.

We anticipate receiving $8 million in rent from HMG during 2023. For all of the other transition portfolios with market-based rents, we received 120,000 in the fourth quarter, also in line with our expectations and expect to receive $480,000 in rent during 2023. During the year, we will work to either sell all or some of these assets are set negotiated rents.

During the 2022 fourth quarter, we provided $670,000 in rent abatements to the same operator for whom we have been giving assistance. At this point, we expect to receive $300,000 in rent in 2023 from this operator. We paid $5 million in regular scheduled principal payments under our senior unsecured notes in the 2022 fourth quarter at a weighted average rate of 4.27%.

We also repaid $21 million under our unsecured revolving line of credit at a weighted average rate of 5.14% and paid $23.3 million in common dividends, as Wendy mentioned. We sold 757,400 shares of common stock for $29.2 million in net proceeds under our ATM program and use those net proceeds to temporarily pay down our revolving line of credit.

We then subsequently used our line of credit to fund our investment in 12 assisted living and memory care communities in North Carolina, which will be discussed in more detail shortly. Also, we recently amended our credit agreement to update its benchmark provisions, replacing LIBOR with SOFR plus a credit spread adjustment of 10 basis points. Our only floating rate debt is our line of credit. Our balance sheet remains solid with no looming debt maturities and no secured debt.

As I mentioned earlier, in the fourth quarter, we received repayment of Anthem's temporary rent reduction in the amount of $1.5 million, collecting $10.8 million from Anthem in 2022, which represents their full agreed-upon rent for the year. We anticipate receiving $10.8 million in rent from Anthem again in 2023.

We were active subsequent to the end of the fourth quarter, including $128 million of investments with an affiliate of an existing LTC operating partner. Clint will provide additional details shortly.

Subsequent to December 31, 2022, we received $4.5 million from a mezzanine loan prepayment, which included a prepayment fee and the exit IRR totaling $190,000 related to a 136 unit independent living community in Oregon. We also received notice of intent to redeem our $13 million preferred equity investment in a joint venture to develop a 267-unit independent and assisted living community in Washington.

We anticipate receiving $1.7 million of additional income in the 2023 first quarter associated with the redemption, representing a 14% IRR. Lastly, also subsequent to December 31, 2022, we borrowed $162.7 million under our unsecured revolving line of credit, primarily for investments in 2023 and repaid $7 million in scheduled principal paydowns on our senior unsecured notes at a weighted average rate of 4.5%.

Presently, we have approximately $42 million of cash on hand, $107 million available on our line of credit with $293 million outstanding and $131 million available under our ATM. This gives us total liquidity of approximately $280 million. We have no significant long-term debt maturities over the next 5 years.

At the end of the 2022 fourth quarter, our credit metrics remain solid with a debt to annualized adjusted EBITDA for real estate of 5x, an annualized adjusted fixed charge coverage ratio of 4.4x and a debt to enterprise value of 34.2%.

As with our FAD payout ratio, these metrics benefited from the non-run rate items already discussed, which represent the Anthem repayment and rent received from HMG related to prior periods. While we expect these metrics to go back up over the short term, our long-term target remains below 5x.

Now I'd like to turn things over to Clint.

Clint Malin

Thank you, Pam. As Wendy discussed, we have been busy strengthening our portfolio, solidifying relationships with existing operators and building relationships with operators with whom we have yet to work. We are being adaptive to the marketplace by listening to operators and offering products that best suit their needs while sourcing new investments that fit our growth strategy and conservative financial management. Subsequent to the end of the first quarter, as Pam mentioned, we entered into a $121.3 million joint venture with an affiliate of a current LTC operating partner.

The transaction included $117.5 million joint venture for the purchase of 523 units across 11 in assisted living and memory care communities in North Carolina. The communities are being operated under a 10- year master lease with 2 5-year renewal options. The initial cash yield of 7.25% increases to 7.5% in year 3 and then escalates thereafter based on CPI, subject to a floor of 2% and a ceiling of 4%.

The lease also includes a purchase option to buy up to half of the properties at the beginning of the third lease year and the remaining properties at the beginning of the fourth lease year through the end of the sixth lease year, with an exit IRR of 9%.

The Purchased assets are being presented as a financing receivable on our balance sheet since the JV acquired the communities through a sale-leaseback transaction, subject to a lease that contains a

purchase option. We expect to record consolidated GAAP and cash interest income from this financing receivable during 2023 of $9.7 million and $8.8 million, respectively.

The investment also included the origination of a $10.8 million mortgage loan secured by a 45-unit memory care community located in North Carolina. The interest-only loan carries a 2-year term with a rate of 7.25% and an IRR of 9%.

In 2023, we expect to record GAAP and cash interest income from this loan of $943,000 and $790,000, respectively. It is interesting to note that this major regional operator has typically not utilized REIT financing, which is a testament to the deep relationship we have built with them.

Within the next few days, we also expect to close a $51 million investment related to an independent living, assisted living and memory care community in Georgia with an existing LTC partner. We will provide additional details when the transaction has closed. After closing this investment, we will eclipsed last year's investment total early in 2023.

In addition to our investments, I'd like to briefly touch on our capital recycling plan, which remain active. Last quarter, I mentioned that over the last 10 years, we have averaged approximately $35 million to $40 million per year in divestitures.

In the first quarter of this year, we expect to receive net proceeds of approximately $32 million from property sales. Accordingly, we anticipate a $3 million reduction in GAAP rent. We intend to use the sale proceeds to pay down our revolving line of credit.

A quick word about 2023 lease maturities. Brookdale remains within the renewal period, which ends on February 28. We recently extended a master lease underlying 2 properties for an additional 5 years at the contractual rate provided for in the lease, and we are currently in discussions on the remainder of the expiring leases.

Moving next to 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 challenging environment created by the pandemic. These metrics exclude properties transitioned on or after July 1, 2021.

Q3 trailing 12-month EBITDARM and EBITDAR coverage, as reported using a 5% management fee was 1.02x and 0.8x, respectively, for our assisted living portfolio. Excluding stimulus funds received by our operators, coverage was 0.91x and 0.69x, respectively.

For our skilled nursing portfolio, as reported EBITDARM and EBITDAR coverage was 1.95x and 1.49x, respectively. Excluding stimulus funds received by operators, coverage was 1.47x and 1.01x, respectively.

I'd also like to share some recent general occupancy trends, which are as of January 31, 2023, and are for our same-store portfolio. As we previously stated, our operators give this data to us on a voluntary and expedited basis so the information we are providing today includes approximately 66% of our total same- store private pay units and approximately 90% of our same-store skilled nursing beds.

Private pay occupancy was 79% at January 31, 2023, compared with 81% at September 30, 2022 and 79% at June 30, 2022. For our skilled nursing portfolio, average monthly occupancy was 73% in January 2023, the same as in September and June 2022.

As a reminder, our private pay occupancy in 2019 was approximately 87% and our average skilled nursing occupancy was approximately 80%. I'll end my remarks with a brief pipeline discussion. As we've detailed today, 2022 and 2023 thus far have been very productive, and our pipeline remains robust. As we move through this year, we plan to be judicious capital allocators.

Currently, banks that are lending are lending at higher rates, making LTC's creative financing structures more competitive. This strategy is paying off as evidenced by a strong end to 2022, continuing into 2023. We are currently reviewing potential transactions for this year, all off market totaling approximately $150 million, including the transaction I discussed that we expect to close shortly in spanning a variety of financing vehicles and property types.

Now I'll give the mic back to Wendy for her closing remarks.

Wendy Simpson

Thank you, Pam and Clint. We have substantially stepped up our investment activity and have successfully divested assets that are underperforming or are no longer core to our portfolio. 2022 was a solid year as we navigated through many challenges outside of our control.

So far in 2023, we have proven our ability to put capital to work to benefit all of our stakeholders. As we continue to move through the year and beyond, we will prudently utilize our solid balance sheet to drive future growth and further strengthen our portfolio. Importantly, we will continue to deepen our relationships with strong regional operators with whom we can grow for the long term.

Operator, we're ready for questions from the audience.

Question and Answer

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Operator

Certainly... [Operator Instructions]. Our first question comes from the line of Austin Wurschmidt with KeyBanc Capital Markets...

Austin Wurschmidt

I appreciate some of the detail around the 1Q guide, getting us the bridge from 4Q to 1Q. But I was curious what's holding you guys back from providing annual FFO guidance at this point?

Pam Kessler

Well, this is Pam. There's still some uncertainties that we're working through that we discussed in our prepared remarks. We would like to be able to set more permanent rent on the transition portfolio, and we're still evaluating some of those for possible sale.

And I think until we get more clarity in that, any guidance that we gave would be predicated on that being a certain thing, and we're just not at that point yet. So I don't see us giving annual guidance until those uncertainties are resolved. -- which hopefully will be later in the year.

But at this point, we don't have visibility into that.

Austin Wurschmidt

Understood. It was a little bit choppy during some of your prepared remarks and difficult to hear you. But Clint, maybe could you clarify the update you provided on the Brookdale negotiations and outcome? It sounds like you made some progress on a portion of the leases. Can you just clarify that detail and maybe remind us what portion remains outstanding and still in negotiation?

Clint Malin

So right now, as we disclosed in our supplemental, Brookdale represents 75% of GAAP income for 2023 that has a lease renewal. The lease that we did renew, it represents 8% of the 2023 GAAP rent for leases that are expiring. So we continuously have discussions with Brookdale. We've provided capital improvement allowances to them.

Last year, we committed an additional $4 million, of which they have put to work just over $3 million to date. So we're encouraged to see continued capital improvement into the Brookdale portfolio. Their window does remain open, and they have until the end of the month to be able to exercise that renewal, which they have unilateral right to exercise.

Pam Kessler

And just to clarify, often, that lease that was renewed, that represented the 8% that Clint was referring to, that was not Brookdale. That was another operator.

Austin Wurschmidt

Got it. Understood. Understood. And I guess what's sort of the -- I mean, are you still running sort of a Plan A, Plan B optionality to the extent that things don't move forward with Brookdale or some portion doesn't move forward? What are sort of the possible... Understand asset management...

Clint Malin

Sure. This is our standard asset management protocol is you have lease renewals that come up, and you're always in that process of having backup plans to be able to work through. So absolutely, that's something not specific to Brookdale's portfolio. That's just something we do as an active asset management process.

Austin Wurschmidt

Got it. And then just on -- from a funding perspective, you highlighted kind of $35 million to $40 million of annual divestitures. It sounds like you've got one in the works now to cover a sizable portion of that, but leverage ticked up a little bit on a pro forma basis subsequent to year-end. And just curious how you're thinking about funding this investment pipeline that you spoke about in your prepared remarks? And that's all for me.

Pam Kessler

Yes. Thanks, Austin. As we've said over the past years, decade, I don't know, decades. We look to fund our acquisitions investments at 70% equity, 30% debt. And that target has not changed.

I think we're ready for our next question.

Operator

Our next question comes from the line of Juan Sanabria with BMO.

Juan Sanabria

Just curious on the transition portfolio. And correct me if I'm wrong, but it sounded like you're expecting a similar run rate from the fourth quarter cash rents received for 2023. Just curious why that isn't and why there isn't any growth there. And is that basically the senior lifestyle portfolio? If you could just give us an update on that, that would be helpful.

Pam Kessler

Yes. That is correct. It is the fourth quarter run rate. And as I've mentioned before to Austin is we're looking at the remaining transition portfolios and determining what we're going to do if we're going to set a permanent rent or if we're going to sell them, we haven't provided rental guidance on that portion.

Juan Sanabria

Okay. So you're not collecting cash flows per se and that your rental income wouldn't necessarily go up if performance improves.

Pam Kessler

No. It's correct that we are not currently collecting rent on those transition properties, if performance improves, we would -- because they're market-based reset. So we would collect rent.

Clint Malin

And also one thing on that is that in 2022, obviously, there was elevated expense in a lot of the rate growth and not -- or rate increases have not been implemented. Now going into 2023, that there has been implementation of rent increases, which Wendy spoke about in her prepared remarks, we know hopefully, we'll see some traction over the course of '23, but we'll evaluate the portfolio during the course of 2023 and make assessments if it's better to look at selling certain assets or if rents can be increased.

Juan Sanabria

Okay. So it sounds like that could be a source of upside, but too soon to say.

Pam Kessler

Yes, that is correct.

Juan Sanabria

Okay. And then just on the investment pipeline. Just curious on the $150 million kind of bucket. Is that mainly equity or is that still tilted towards that? And what type of asset types is a favoring -- and any yield color you could provide?

Clint Malin

Sure. Right now, most of it -- there is some equity involved in this, but there also is some loans and structured finance as well. So it is diverse regarding that. And it is all off-market transactions. So we're very encouraged by that. It depends on the type of asset. But I would say on the loans or structured finance, you're probably in the 8.5-plus percent all in, depending on property type, obviously, skilled being higher and AL being a little bit lower, but it is a combination and a diverse set type of investments.

Juan Sanabria

Okay. Great. And then just on the tenant that's still receiving abatements, the $600,000 to $700,000. What's the latest there? How should we think about that going forward? Is that part of the disposition bucket? Or any commentary around that would be helpful.

Pam Kessler

Currently, it's not part of the disposition bucket, and we've talked about this operator over the past 12 months. We are evaluating that portfolio. And we did give a little bit of rent guidance on it for this year. So there's -- we're still working through that.

Operator

Our next question comes from the line of Steve Valiquette with Barclays.

Amin Jacare

This is Amin Jacare on for Steve Valiquette. Would you be able to provide any additional color for specifically potential acquisitions for the rest of the year, how are you viewing that given the current rate environment?

Clint Malin

Well, we think that in the current rate environment, as we mentioned in our prepared remarks, for the bank start lending, they are lending at higher rates. And as we understand it, lower LTVs. So it does make LTC more competitive in the marketplace and also with refinancing, the execution because we don't put property-specific debt on, can provide better certainty of close.

So we do think it provides -- this environment as an opportunity for us to be able to execute on acquisition. So we're encouraged by what we see in the general environment in 2023, but we're going to be very disciplined in how we approach that. We've been fortunate to be able to do the amount of investments we have to date already eclipsing 2022, but we think it's going to lead to opportunities for LTC.

Amin Jacare

Great... Thank you.

Operator

Our next question comes from the line of Rich Anderson with SMBC.

Richard Anderson

So let's see if I can help you with the 2023 guidance here. So you do -- you take the first quarter and you annualize it, that's $2.70. You mentioned transition, and I appreciate and respect the reason why you want to hold off, but it seems like there's more potential upside than downside from that portfolio. Perhaps you sell it, and maybe there's some dilution there, but more likely, you redeploy that.

So isn't $2.70 kind of a floor type of number if you think of the run rate from first quarter. And there's probably through your acquisition pipeline upside from that, is that a reasonable way to look at it? Or am I missing something?

Pam Kessler

I would say that's reasonable.

Richard Anderson

Okay. Second question is... No, no, I know. I'm not putting you on the spot here or at least I don't intend to... Next question -- I'm sorry, we're talking on one other one. If you go first?

Wendy Simpson

All right. You reverse engineer and we say we want to get to our 80% dividend coverage. And our dividend is $0.19 a month.

Richard Anderson

I see. So you take the dividend, you targeted 80% payout and you kind of can kind of come after the number from 2 directions is kind of the way you're saying. Is that right?

Wendy Simpson

At this point -- in reality, that's right.

Richard Anderson

Yes. Fair enough. Second question is on the joint venture. Clint, you said something about the purchase option. Is that -- did I hear you right that they were somehow inherited or were they negotiated into this transaction?

Clint Malin

They were negotiated as part of the transaction.

Richard Anderson

Okay. Okay. I thought that was the case. But so the reason why I'm bringing it up is LTC finds itself in potentially a better competitive position for the reasons you mentioned in terms of bank lending and so on. Do you feel like purchase options as a negotiating tool maybe starts to wither away a little bit for you guys? Or I'm curious as to why still presented itself here considering kind of the position of strength that you're coming from a negotiating perspective.

Clint Malin

I mean obviously, our preference would be not to include purchase options. But in looking at each individual transaction, we have to look at the circumstance and what the specific deal is. And this deal is obviously negotiated in 2022. The lending environment has continued to evolve and change since then, but it's really working with operating partners and what they want to achieve out of this. And in this case, purchase options and the ones we did last year, made sense for that specific operator.

Our intent is to build these relationships, grow them and lead into additional investments beyond this. So if we can provide flexibility in how we're approaching these investments, so we think gets solid growth for future business for those operators.

Richard Anderson

Okay. Is there anything more beyond the joint venture and the mortgage with this operator that is upside that you see in terms of a relationship here, either with them or maybe just in the state of North Carolina.

Clint Malin

I mean we do see the potential of more business. Although as we're growing in increasing concentration, we're also cognizant of that with any individual operator. So we'll manage that. But I do think that we have the ability to do additional investments, not obviously as large as this investment. But yes, I think we have the opportunity to do more.

Operator

Our next question comes from the line of Michael Carroll with RBC.

Michael Carroll

I just have a few clarifications. So the skilled nursing facility lease that was renewed. Is it fair to assume that the contractual cash rent is the same on that renewal?

Pam Kessler

I think it was a 2.5% increase. There was... actual increase. It was whatever the stated increase was, which generally is about 2.5%.

Michael Carroll

And does the GAAP rent on that change, given that now you have a 5-year renewal or are you straight- lining out over the next 5 years compared to the prior lease? Or is it unchanged?

Pam Kessler

Yes, they are straight lined. So it would increase. It's going to reset for 5 years. So yes, that's the math.

Michael Carroll

Okay. And then related to Anthem. I know we've been kind of on the same rental rate for them. I mean are we getting closer to setting a new contractual rent from them? Or is there still a potential upside from this current level?

Clint Malin

We would like to go ahead and set contractual rents, as I'm sure Anthem would at some point. But at this point of where we're at, we'll see where 2023 goes, but that is our objective as well as Anthem to get into that actual contractual rental amount. When we do that, that will still to be determined, but it is a goal on both parties' parts to be able to do that.

Michael Carroll

Okay. Is that more of like a 2024 event as you kind of hit more of a stabilized type of environment?

Clint Malin

I mean realistically, probably yes. At this point, I'd say probably early '24...

Michael Carroll

Okay. And then related to HMG, I mean, that $8 million that you expect to be paid, is that based off of their current performance? I mean, is there upside to that potential number if they perform better than you expect or they expect?

Clint Malin

We do have a structure where we have market-based resets. And given that working with HMG and their budgets, this is a number that we were both comfortable with looking forward as to what it could be, but we do have the ability to reset rents contractually based on the market-based reset. But also, it is a goal between us and HMG because this is a shorter-term lease right now to roll this into a longer duration lease and set rents permanently.

So that's something that we will be active or in active discussions with HMG to accomplish that. Or if we stay in the current market based rent structure, there is a possibility that could increase over time. But really, our goal is to put this into a longer-term lease and set permanent rents.

Michael Carroll

Okay. How has the operations of those assets done since HMG has kind of taken over? And how long does it take for that to kind of fully stabilize given that they've been able to put in their processes and kind of turn around overall results?

Clint Malin

I mean, it's definitely taken longer. I think that both parties expected from when we initially transitioned. But I mean, they've done a lot of work as far as doing capital improvements, working on staffing, leadership. So at this point, we'll be coming near the 24-month mark this October, which is really giving them the runway to be able to put their processes in place. So I think at this point, they've got the platform to be able to improve operations and rightsize expenses.

And with the capital improvements, hopefully, be able to continue to make improvements. A lot of this also is just working on relationships with hospitals and managed care providers as well to be able to grow into. And then we have the rate increase in Texas that's being discussed in the legislature right now.

That is still -- I think the session ends probably at mid to end of May, and so we'll have to see where that rate increase or if a rate increase comes about, everyone is hopeful that will happen in Texas, but we won't know for certain until the legislative session ends and I said, mid-May to the end of May.

Wendy Simpson

And that's not included in our projections.

Clint Malin

Correct.

Wendy Simpson

That would be an upside.

Operator

Our next question comes from the line of Tayo Okusanya with Credit Suisse.

Omotayo Okusanya

Yes. Kind of fortunate to be on the call right now because you guys just mentioned Texas. Just kind of curious, again, how things are shaping up at this point, if there's any insight. And second of all, if there are any other states that you have exposure to that you would consider an increase in Medicaid rates this year, absolutely critical for the success of the operators that are in the state.

Clint Malin

As far as states -- I mean, states for LTC that have -- we have a large concentration of skilled nursing is Texas and Michigan. So we just talked about Texas, Michigan is going through a rebasing process. So there will be a positive increase in rates for our operator in Michigan, they're expecting probably a 9% rate increase in October that would be retroactive as well. given the rebasing of the cost reports. So there's a big benefit in plus in Michigan starting in October of this year.

Clint Malin

Or, actually, more to the point, Florida, which is the lease that we just renewed was two skilled nursing buildings in Florida, which had a large rate increase that took place last year. So that already occurred.

Omotayo Okusanya

Okay. That's helpful. And then again, generally, while your portfolio is in great shape and most of your you. When you kind of think about the industry at large though, I mean, how are you feeling about skilled nursing side, specifically how you think things ultimately evolve for the industry? Is it the case of just kind of a pain kind of some of what went on with mega with their top tenants? Is that your call of more near- term pain before things get better? Do you kind of feel like things have inflected on the skilled nursing side. Just kind of curious your overall viewpoint of the industry at this point.

Clint Malin

I think it depends on what portion of skilled nursing you're referring to. Right now, census and long-term care has been more challenged than it has been in shorter stays. And so I think that in skilled nursing, taking on higher acuity patients, especially now with the implementation of PDPM, that's been beneficial to the industry through the pandemic, I think you see reaching up into higher acuity is where a lot of operators are going -- so that's an area -- that's reflective of the investments we made last year, both with Ignite

Medical Resorts as well as Pruitt in Florida, operators are focusing on that higher acuity model and being able to take on patients that are in hospitals or other higher acuity settings.

We think that has traction. The long-term care side has been more challenged with home care and assisted living Medicaid waiver programs.

Operator

Our next question is a follow-up question from Juan Sanabria with BMO.

Juan Sanabria

Just a couple of follow-up questions. Is there any back story to the Florida impairment we should be aware of? Is that tenant paying rent? Or what's the story there?

Clint Malin

That was a building that was part of a transition portfolio that we did last year. And it's a one-off building from the others in that portfolio. So really just identifying buyers for that asset and the impairment was a result of that. So nothing other than that.

Juan Sanabria

Okay. And then you mentioned $32 million of dispositions. Were those rent paying? Or what was the rent that was booked in the fourth quarter as it relates to that $32 million dispo opportunity?

Pam Kessler

I'm sorry, Juan, it was very hard to hear. Would you mind repeating the question?

Juan Sanabria

Sure. The $32 million of dispositions you referenced, I think, in your prepared remarks, what kind of yield should we expect relative to what was booked in the fourth quarter...

Pam Kessler

Do you mean that we said there'd be a $3 million GAAP decrease in rent due to the sales, Is that your question?

Juan Sanabria

Yes. I guess is that a full year '23 number or fourth quarter annualized?

Pam Kessler

That was a full '23 number. So just pull that out of your model.

Juan Sanabria

Okay. Okay. And then just the last one. This one's maybe a little harder. But on the occupancy front, you gave the numbers for January for both SNFs and seniors housing. Why haven't those really improved over the last 6-plus months. Where do you think the issue is?

Pam Kessler

Well, like anything, you can't paint a broad brush and occupancy increases coming out of the pandemic have not been linear. There's been pockets of short term, what we view as short-term setbacks. And the reasons are varied across the board. You've got leadership changes at some communities, and we all know we're undergoing staffing issues, and there's seasonality.

There's always a seasonality that's reflected. And so you see in senior housing, in particular, in the fourth quarter and beginning of the first quarter, occupancy dips as families are reluctant to make changes during the holidays. So typically coming out of the first quarter, your seasonality, it goes to the upside.

So we're hoping that, that will be the case again for these. But I think as you look, we still have a 700 or 800 basis points needed for recovery, back to pre-pandemic occupancy levels. I think we should expect to see it to be -- continue to be a bumpy road. I don't think it's going to be a straight shot upward. But with everything, we're looking at our portfolio. And if it's the short-term reasons that we think are recoverable, we'll continue to stay invested in those assets.

And for those that we think the market has turned or for some reason that area, the demographics or the market is not supporting the product, and we would look to exit those investments.

Clint Malin

And one other thing Juan that we've heard from some operators, again, it differs by market, by state, lead generation has been really strong for the most part. In some markets, conversions have been a little bit of a bend lagging. And so it's really understanding in certain markets, why there's been a lag in conversions in sales in some markets.

So -- but the positive is lead generation seems to be strong. And that's what I've heard in some other earnings calls for this quarter as well that lead generation across the board has been very strong.

So just operators are going to focus on that conversion into closing.

Juan Sanabria

Appreciate the call.

Clint Malin

Thank you.

Operator

Thank you for your question. There are no further questions waiting at this time. [Operator Instructions].

Wendy Simpson

Thank you, everyone, for joining us, and we look forward to talking to you very shortly as the first quarter is close to closing. Have a great day. Bye-bye.

Operator

This concludes today's LTC Properties Inc. Analyst and Investor Call. Thank you for your participation. You may now disconnect your line.