S&P Global
Market Intelligence

UMH Properties, Inc. NYSE:UMH

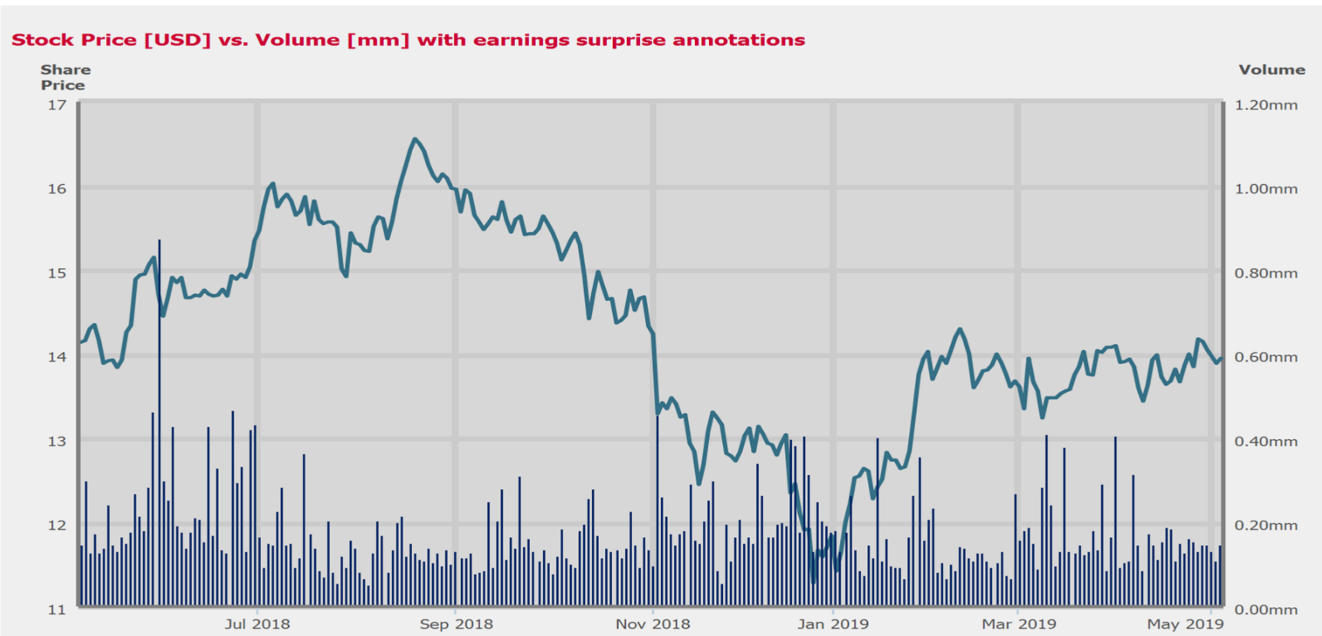
FQ1 2019 Earnings Call Transcripts

Friday, May 03, 2019 2:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2019-			-FQ2 2019-	-FY 2019-	-FY 2020-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS (GAAP)	0.18	0.15	(16.67 %)	(0.02)	0.38	0.06
Revenue (mm)	35.06	34.29	(2.20 %)	36.82	150.07	164.35

Currency: USD
Consensus as of May-03-2019 11:57 AM GMT



- EPS (GAAP) -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2018	(0.03)	0.40	NM
FQ3 2018	(0.02)	(0.31)	NM
FQ4 2018	(0.04)	(0.88)	NM
FQ1 2019	0.18	0.15	1 (16.67 %)

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Call Participants

EXECUTIVES

Anna T. Chew
VP, Chief Financial & Accounting Officer, Treasurer and Director

Brett Taft
Vice President

Daniel Landy
Assistant to the President

Eugene W. Landy
Founder & Chairman of the Board

Nelli Madden
Director of Investor Relations

Samuel A. Landy
President, CEO & Director

ANALYSTS

Craig Gerald Kucera
B. Riley FBR, Inc., Research Division

James O. Lykins
D.A. Davidson & Co., Research Division

Merrill Ross
Boenning and Scattergood, Inc., Research Division

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

Presentation

Operator

Good morning and welcome to UMH Properties First Quarter 2019 Earnings Conference Call. [Operator Instructions]

Please note this event is being recorded.

It is now my pleasure to introduce your host, Ms. Nelli Madden, Director of Investor Relations. Thank you. Ms. Madden, you may begin.

Nelli Madden
Director of Investor Relations

Thank you very much, operator. In addition to the 10-Q that we filed with the SEC yesterday, we have filed an unaudited first quarter supplemental information presentation. The supplemental information presentation along with our 10-Q are available on the company's website at umh.reit.

I would like to remind everyone that certain statements made during this conference call which are not historical facts may be deemed forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The forward-looking statements that we make on this call are based on our current expectations and involve various risks and uncertainties. Although the company believes the expectations reflected in any forward-looking statements are based on reasonable assumptions, the company can provide no assurance that its expectations will be achieved. The risks and uncertainties that could cause actual results to differ materially from expectations are detailed in the company's first quarter 2019 earnings release and filings with the Securities and Exchange Commission. The company disclaims any obligation to update its forward-looking statements.

In addition, during today's call, we will be discussing non-GAAP financial metrics. Reconciliations of these non-GAAP financial metrics to the comparable GAAP financial metrics as well as explanatory and cautioning language are included in our earnings release, our supplemental information and our historical SEC filings.

Having said that, I would like to introduce management with us today: Eugene Landy, Chairman; Samuel Landy, President and Chief Executive Officer; Anna Chew, Vice President and Chief Financial Officer; and Brett Taft, Vice President.

It is now my pleasure to turn the call over to UMH's President and Chief Executive Officer, Samuel Landy.

Samuel A. Landy
President, CEO & Director

Thank you very much, Nelli.

We are pleased to report our results for the first quarter ended March 31, 2019. Following 8 consecutive years of delivering double-digit growth, rental and related income for the quarter increased 12% over 2018. Sales increased 44% for the quarter. Community NOI increased 9%. Demand for both sales and rentals of our homes remains robust. Normalized FFO per diluted share for the first quarter of 2019 was $0.17 as compared to $0.18 in 2018. This decline was primarily due to a reduction in dividend income from our securities portfolio.

Our same property results continue to demonstrate the strength of our business plan. During the quarter, same property NOI increased 4.7% driven primarily by occupancy gains as same property occupancy improved to 83.1% this quarter from 81.9% in the prior year period. Our average site rental rate as of the end of the first quarter is $447 as compared to $434 last year, representing an increase of 3%. Our average home rental rate for the same period is $753 as compared to $732 last year, representing an increase of 2.9%.

Our same property expense ratio for the first quarter was 45.5% as compared to 44.5% in 2018. Generally, communities with 90% occupancy or greater can operate at an expense ratio as low as 30% when water and sewer are separately metered and at a 50% expense ratio if they are not separately metered. To the extent our expenses exceed those ratios, we are strategically increasing expenses to improve our property operations to generate future revenue and profits. As we invest in our communities, add rental units and sell homes, we will achieve these results.

We are particularly encouraged by the strength of our sales operation. Our home sales for the quarter improved by 44%, marking the best first quarter sales in company history. During the quarter, we sold a total of 66 homes at an average price of $55,000 as compared to 54 homes at an average price of $47,000 last year.

Sales have consistently improved over the past 4 years. We are optimistic that sales this year will have a positive impact on our per share earnings. The GSEs are rolling out their pilot programs to purchase chattel loans, which may have a significant impact on the ability of our customers to obtain financing.

Our expansion program is progressing as expected. We believe that we will have approvals to develop 335 sites in 2019, 825 sites in 2020 and 377 sites in 2021. The importance of being able to develop new sites and new communities cannot be understated. We have broken ground on several expansions this year and look forward to providing updates on those projects throughout the year.

Our acquisition pipeline remains unchanged. We have 2 communities containing 1,200 sites under contract for a total purchase price of $45 million, representing a cost per site of $37,600. These communities have a blended occupancy rate of 63%. These 2 communities should close in the second or third quarter this year.

The acquisition market remains competitive, but we continue to explore all acquisition opportunities. Our previous year's acquisitions are meeting our expectations, and we believe that they will positively contribute to our operating results this year.

Over many years, our business plan of acquiring value-add communities in markets that are experiencing positive demographic growth has allowed us to build an exceptional portfolio. Since 2010, we have acquired 83 communities containing approximately 13,600 homesites. During this same period, we have grown our rental revenue by approximately 357%. These numbers depict the long-term value creation of our business plan.

Our business plan also continues to provide an organic growth vehicle that we will continue to utilize to further grow earnings. Most of our vacancies were acquired strategically with these value-add communities. As we continue to invest in and upgrade these communities, we will continue to fill the vacant sites, resulting in significant value creation.

For every 100 basis point improvement in occupancy at our average monthly site rent of $440 with an operating expense ratio of 45%, we generate $10 million in value at a 6.5% cap rate. Applying this formula to all our vacant sites, we can generate an additional $165 million in community level value. Our team works every day to unlock this value. We are well positioned for an excellent 2019.

Subsequent to quarter end, we enhanced our financial strength by issuing 4 million shares of our 6.75% Series C Perpetual Preferred Stock, resulting in net proceeds of approximately $96.6 million. This capital will be invested in our core business, which should lead to future earnings growth.

And now Anna will provide you with greater detail on our results for the quarter.

Anna T. Chew
VP, Chief Financial & Accounting Officer, Treasurer and Director

Thank you, Sam. Core funds from operations, or core FFO, was $6.1 million or $0.16 per diluted share for the first quarter of 2019 compared to $6.4 million or $0.18 per diluted share for the prior year period. Normalized FFO, which excludes realized gains on the sale of securities and other nonrecurring items, was

$6.5 million or $0.17 per diluted share for the first quarter of 2019 compared to $6.3 million or $0.18 per diluted share for the prior year period.

Rental and related income for the quarter was $30.6 million compared to $27.3 million a year ago, representing an increase of 12%. This increase was primarily due to community acquisitions, the addition of rental homes and the growth in occupancy. Community NOI increased by 9% for the quarter from $14.5 million in 2018 to $15.9 million in 2019.

Our normalized operating expense ratio increased to 48.2% from 46.8%. The increase in expenses can be attributed to seasonal expenses, rental home turnover and the growth of our community-level staff. We are investing in our personnel and have increased marketing, sales and community staff as needed to ensure that our frontline has the human resources necessary to handle our growth. We have also paid increased incentives due to the occupancy of an additional 182 sites during the quarter. We expect the expense ratio to decline as new revenue originated during the first quarter offsets the increased expenses.

As we turn to our capital structure, at the end of the first quarter, we had approximately $444 million in debt, of which $329 million was community-level mortgage debt and $115 million were loans payable.

76% of our total debt is fixed rate. The weighted average interest rate on our mortgage debt was 4.3% at the end of the first quarter 2019 compared to 4.2% in the prior year and 4.3% at year-end 2018. The weighted average maturity on our mortgage debt was 6 years at quarter end compared to 6.7 years a year ago.

As of quarter end, UMH had a total of $289 million in perpetual preferred equity. Our preferred stock, combined with an equity market capitalization of $551 million and our $444 million in debt, results in a total market capitalization of approximately $1.3 billion, representing a 14% increase year-over-year.

From a credit standpoint, our net debt-to-total market capitalization was 34%, our net debt less securities-to-total market capitalization was 26%, our net debt-to-adjusted EBITDA was 6.9x and our net debt less securities-to-adjusted EBITDA was 5.2x. Our interest coverage was 3.2x, and our fixed charge coverage was 1.6x.

From a liquidity standpoint, we ended the quarter with $7 million in cash and cash equivalents, $25 million available on our credit facility and $12 million available on our revolving lines of credit for the financing of home sales and the purchase of inventory. We also had $109 million in our REIT securities portfolio encumbered by $32 million in margin loans. This portfolio represents approximately 9.8% of our undepreciated assets. Although the REIT market experienced high volatility over the past 12 months, in the long term, these securities generally perform in line with the underlying real estate. We limit our portfolio to no more than 15% of our undepreciated assets.

As Sam mentioned, subsequent to quarter end, UMH further increased our liquidity and strengthened our financial flexibility and balance sheet by issuing 4 million shares of our existing 6.75% Series C Cumulative Redeemable Preferred Stock for net proceeds of approximately $96.6 million. We intend to use the proceeds for general corporate purposes, which includes the purchase of manufactured homes for sale or lease to customers, expansion of our existing communities and acquisitions of additional properties. We anticipate continued per share earnings accretion once this capital is fully deployed. With our strong financial position, we are poised to continue our growth initiatives.

And now let me turn it over to Gene before we open it up for questions.

Eugene W. Landy
Founder & Chairman of the Board

Thank you, Anna. Our mission at UMH has always been to provide affordable housing. We are now the seventh-largest operator of manufactured housing communities in the country. Our portfolio contains 118 communities with 21,500 developed homesites. We own and operate an irreplaceable portfolio of manufactured housing communities. Our communities and markets that we operate in continue to exhibit strong demand for affordable housing. As a result, our operating metrics are very good.

Throughout the years, we've invested in various financial instruments, including REIT securities, in order to provide liquidity for potential acquisitions and generate significant returns when other investment opportunities are not available. Since 2010, we have generated $46.5 million in dividend income and realized gains of $18.7 million. Historically, we've been very satisfied with the performance of our securities portfolio.

Over the past 12 months, the markets have been volatile, resulting in tremendous swings in value of the portfolio. We will not be allocating additional capital for the purchase of securities and may decrease the portfolio as we are able to find investment opportunities in our core business or for other corporate purposes, including the potential redemption of our 8% Series B Preferred Stock in 2020.
We will now be happy to take your questions.

Question and Answer

Operator

[Operator Instructions] And our first question comes from Rob Stevenson of Janney.

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

Sam, you talked earlier in your comments about the water and sewer metering, how many of your 21,500 sites are not separately metered for water and sewer at this point? And what's the plan for that?

Samuel A. Landy
President, CEO & Director

Yes. I don't do know. I'm going to ask Daniel here if he has the numbers.

Daniel Landy
Assistant to the President

I don't have the number of sites in total that could be metered, but there are certainly still some communities that we are planning on metering, and those will continue having cost savings. So there are still some communities, I think, we're planning on metering, around 8 communities going forward, some in the Tennessee region, which will significantly reduce some of our operating expense ratio. Yes.

Samuel A. Landy
President, CEO & Director

So there's more to do, but we continue to do them, and that is the single biggest variable cost that we can reduce.

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

And are there areas where you're not permitted to do this?

Samuel A. Landy
President, CEO & Director

I think we resolved that situation. Anywhere we couldn't -- where the laws didn't allow us to separately meter, we had that changed and we can now do it. Yes, we're okay with that.

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

Okay. And then the assets where you're not currently doing it, are you doing some sort of RUBS, the sort of proportional in the monthly site rent? Or essentially, is -- if I leave my water running or I take hour-long showers a day, is that -- I don't pay any more than my neighbor that winds up using a lot less?

Samuel A. Landy
President, CEO & Director

That's correct. That's why we have to fix the problem. In the communities we acquired that were not separately metered, the opportunity to greatly save money by separately metering is there, and we're working on it, yes.

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

Okay. And then what's the delta between acquiring those 2 acquisitions you were talking about in the second or third quarter? Is this something where the seller is trying to time something for 1031? Is this due diligence on your part where you need to see some stuff accomplished before closing? What changes the timing on those deals?

Brett Taft
Vice President

Yes. So this was originally part of a -- this is Brett here by the way. This was part of a 4-community portfolio. We closed 2 of those communities at the end of last year, and we were working with the seller to provide flexibility and that they did need to find 1031 replacement properties to get this done. So we did our diligence early on in the process. That was opened up again recently. We only were able to start the loan assumption process this March, which is why we had the big delay in getting these closed. That being said, we are doing the loan assumptions now. There aren't any outstanding diligence items, and it's just completing the loan assumption process. It's hard to put an exact date on when these will close, but it should be the end of the second quarter or third -- or into the third quarter.

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

Okay. And then you guys bought 153 rental units in the first quarter, which is well off of your trailing 8, 10 quarters. Was there anything that sort of drove that? Was it just timing to be able to get stuff -- product and get it set up on the sites? Anything to read into that down, which was roughly half of what you guys did in the fourth quarter?

Samuel A. Landy
President, CEO & Director

Well, it's winter and that we've set up homes in the fourth quarter that we needed to fill in the fourth -- in the first quarter. So doing those things, the occupancy gains are on track to again hit 800 units in 2019, 800 new rental units. So yes, though it was -- looking at the number of homes put in, it appears to be a slow start. But we had more units to fill from the fourth quarter.

Brett Taft
Vice President

Last year...

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

Okay. So as you think about '19 -- I mean '18, you did a little over 900. '19, you expect to do at least that amount or possibly more for the full year?

Brett Taft
Vice President

No, I was just going to add to your first question as well. Last year in the first quarter, we did 165 homes, which is below, 200 per quarter equals 800. So we -- throughout the rest of the year, the market should pick up and we should be able to hit those 800. Last year, you mentioned we did 900. About 100 of those were directly related to acquisitions. So I'd back out those 100 and use the number of 800 for the year in our existing portfolio.

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

Okay. Perfect. And then just last one for me. So given Gene's comments on the securities portfolio, the change in the first quarter was basically all just due to the rebound in stock prices? You guys did not add anything to it in there and won't going forward?

Eugene W. Landy
Founder & Chairman of the Board

That's correct. That's correct. We wish we own the securities at current prices. We wish we had paid for them at what the current prices are. But we're getting the quarterly reports from the companies, and by and large they're in line with our expectations. But we do not plan to add to the portfolio. And we have needs for capital in expansions, in rental units, in acquisitions, and those add up to about $100 million a year. So there are no plans to expand the securities portfolio, and we may even reduce it.

Operator

Our next question comes from Jim Lykins of D.A. Davidson.

James O. Lykins
D.A. Davidson & Co., Research Division

First, another question about the securities portfolio. How should we be thinking about dividend income right now? I know there were some issues with CBL and OPI. Could that be lower again in second quarter? Or should we start to see dividend income beginning to trend higher?

Eugene W. Landy
Founder & Chairman of the Board

I think that at the high end, dividend income was over $10 million, and I believe we're down $2.5 million or $3 million. And that factors in all the announced dividend cuts, all the reorganizations and the so-called temporary suspensions. So if anything, the current run rate may increase slightly because some of our portfolio is doing very well and they may increase the dividend. But the -- since -- quarter-by-quarter last year, the dividend rate was going up. When we get to the next quarter, there'll be the same dividend decline for the year. But then we'll look to -- the comparison will be that we will have less dividend income in that quarter.

Anna T. Chew
VP, Chief Financial & Accounting Officer, Treasurer and Director

Jim, since we're not increasing the portfolio, we don't expect dividend income to increase substantially. We were doing around -- we were at $1.9 million in Q1. We expect that Q2 will be of a similar amount.

James O. Lykins
D.A. Davidson & Co., Research Division

Okay. So it's not going to get any worse with -- or we've seen all the pain that come with CBL and OPI, right?

Anna T. Chew
VP, Chief Financial & Accounting Officer, Treasurer and Director

We believe so.

James O. Lykins
D.A. Davidson & Co., Research Division

Okay. Switching gears, you've got a couple acquisitions teed up to close in the second and third quarters. Just for modeling purposes, can you give us any sense for when in the second and third quarters you anticipate both of those closing? And also, with the proceeds from the preferred, will -- I assume it's roughly $45 million going toward those 2 acquisitions. I know you've talked about or you mentioned some of it's going to be invested in the core business. I'm also wondering if maybe some of those proceeds are going to be put aside for potential acquisitions. Or will that $55 million difference be going toward the core business?

Brett Taft
Vice President

Yes. This is Brett here. So I really can't provide better timing than we already have. Optimistically, I hope they close at the end of the second quarter, but it's very possible they do drag on into the third quarter.

You mentioned the purchase price of $45 million. There's actually -- I believe we need cash of about $20 million to get that deal closed. So it's not that we're funding the full purchase price with the new preferred. There are mortgages that are being assumed, which is why this process has been slow. That being said, we don't have these 2 new properties -- there's 2 more properties that were -- are going to be in our pipeline. They're not under contract at the moment, but we do have an executed LOI by both parties. We're working towards the contract now, and they should be under contract in the next few weeks. Because they're not under contract, I don't want to get into too much detail, but it's 2 properties in the Pittsburgh market, about 285 sites priced between $11 million and $12 million. No debt in place currently.

Samuel A. Landy
President, CEO & Director

And Sam here. Just on the capital needs from the preferred, we're going to purchase at least $32 million in rental homes. On our sales, we finance 50% of the sales. So that could be as much as $10 million. Our expansions -- building those expansions is going to need at least $30 million. And our capital improvements are about $15 million. So that's $87 million right there.

James O. Lykins
D.A. Davidson & Co., Research Division

Okay. And one last one for me. G&A was down about $0.5 million sequentially. Any thoughts on how we should be thinking about that for the rest of 2019? How is that trending so far into Q2?

Anna T. Chew
VP, Chief Financial & Accounting Officer, Treasurer and Director

I think Q1 was a little light on it. I think going forward, it will increase a little bit. We had some decrease in some payroll expenses. But I think going forward, it will increase a little bit. I think it may go to approximately the same as in 2018.

Operator

Our next question comes from Merrill Ross of Boenning.

Merrill Ross
Boenning and Scattergood, Inc., Research Division

You mentioned for the second time, Sam, the GSE chattel loan program. And I'm curious if you think that will reduce the number of rentals. In other words, will it be affordable enough that tenants would rather buy than rent and if that would have an impact on your rental program?

Samuel A. Landy
President, CEO & Director

So what's working fantastically well for us is everybody out in the field is trained to identify the customers' needs. And if the customer is staying 3 years or less, we recommend renting. Even though they're going to get a 4% rent increase every year, they're going to save money, they're going to have their flexibility. They don't have to tie up their capital. They don't have to deal with the difficulties of reselling a home. So when we identify a person as a person staying 3 years or less, that's a renter and there's incredible demand for those. We'll keep the rental units we have. We'll add 800 rental units a year. If we identify a person who's looking for a place to live for more than 3 years, that's a buyer. And improvements in the finance interest rates for purchase of manufactured homes will make buying available to a greater number of people. The single biggest hurdles in buying, does a person have 10% down and do they qualify for the loan. So reducing the interest rates creates more qualification as does rising employment or rising income. So our sales growth, which has been phenomenal, is continuing to accelerate.

Merrill Ross
Boenning and Scattergood, Inc., Research Division

And when you look at the 66 homes sold, are they concentrated in a particular region? Or is it more uniform? And do you think that the buyers are primarily older folks that are looking to downsize or employees moving in?

Samuel A. Landy
President, CEO & Director

Well, our cash sales were $1.084 million versus $633,000 a year ago, which would indicate that the 55-and-older sales grew about $400,000 because they're generally the cash buyers. And our total sales went from -- well, finance sales went from $1.7 million to $2.5 million, indicating the workforce helped home sales grow even more. But they're both growing very well. And an interesting thing, and only 1.5 hours from New York City is Monticello, New York where they built the casino and the waterpark, and our expansion wound up 100% occupied so that New York had $737,000 in sales, which is just great for New York, and the growth in our sales from a year ago was phenomenal. Tennessee remains very strong with a 44% sales increase...

Brett Taft
Vice President

45%.

Samuel A. Landy
President, CEO & Director

45% sales increase. So the workforce housing end is going exactly like we projected, purchasing in Indiana with Elkhart, where when we bought the communities there was 22% unemployment and now less than 4% unemployment. We're obtaining sales growth in pretty much all regions, with New Jersey being the only real exception, and I assume that's because of a lack of sites on which to sell homes, and we're working on preparing lots right now to increase our sales there.

Operator

[Operator Instructions] And our next question comes from Craig Kucera of B. Riley FBR.

Craig Gerald Kucera
B. Riley FBR, Inc., Research Division

I wanted to circle back to the commentary on the acquisitions you haven't announced. Were those $11 million to $12 million each or in total?

Brett Taft
Vice President

Total.

Craig Gerald Kucera
B. Riley FBR, Inc., Research Division

Okay. Great. When I look at your 28 acquisitions, kind of backing them out relative to same store, it looks like they're actually losing -- they actually lost about $300,000 in NOI here in the first quarter. Sam, based on your commentary, are you -- you do expect those to be generating positive results for the year? Or sort of as we move through the year, they'll eventually be at least breakeven or modestly positive?

Samuel A. Landy
President, CEO & Director

I'm going to turn that over to Brett in a second. Go ahead.

Brett Taft
Vice President

Yes. So you're talking about the 2018 acquisitions, and they are in better condition and they are more stabilized properties. But with any acquisition, there are improvements that we like to immediately make. Some of that is waste removal, home removal. Some of that is evicting tenants that aren't paying the rent, unfortunately. And most of these communities were actually closed in the third and fourth quarters of last year, so we're still in that initial turnaround phase. I fully expect those to meet our expectations in 2019. They should revert back to where they were at least acquired at and then start to provide meaningful growth going forward. But demand remains very, very strong at those properties, and we are filling sites, so.

Eugene W. Landy
Founder & Chairman of the Board

I want to encourage everyone to go to our website. We've put on our website the drone videos of our communities, and these drone videos of the communities show really lovely communities. And it's our policy to upgrade the communities, and the value of our company depends on the value of our parks. And when we make these acquisitions, we budget into them that there's going to be substantial amounts spent. Some are capitalized, some are expensed. And it takes 3 years to turn them around to get them to where we want them, but we're very proud of our acquisition program. We bought these parks for substantial discounts from their current value, and they're all making excellent progress.

Craig Gerald Kucera
B. Riley FBR, Inc., Research Division

Got it. So I mean, they're 79% occupied. I guess what you're saying is that it's going to be a little bit more in the expense side, and that's sort of gradually burning off because I think your same store is actually not too much higher than this. It's really just kind of cleaning it up and then maybe seeing a little bit improvement in occupancy and rent?

Brett Taft
Vice President

Correct. Yes. And it's the winter season as well, so we can't hit the ground running as hard as we could if we acquired these in the spring, obviously. So we're starting to get homes coming in now. We should start to see improvements in occupancy and a reduction in expenses related to the seasonal expenses. So...

Craig Gerald Kucera
B. Riley FBR, Inc., Research Division

Okay. And as far as the preferred that you recently raised, I understand that you have overall core business needs, all the various expansions and adding rental homes and whatnot. But I guess sort of what is the immediate use? I mean, are you going to use that to pay down the line? Or is that just going to sit as cash effectively and then be invested into the business over time? Or how should we think about that?

Anna T. Chew
VP, Chief Financial & Accounting Officer, Treasurer and Director

Immediately, what we did or and what we will continue to do is pay down the lines as well as the floor plan lines. That way, when we have the need, including the purchase of rental homes, including the acquisitions, we're able to take down the line again. So we don't like to sit with a lot of cash on hand. We're able to borrow it on our lines. We've -- so we are able to at least earn some funds as we use the cash. We always say that you have to raise money when you can because when you need it, you may not be able to raise it. So that's the reason why we raised the preferred at that -- at this time.

Samuel A. Landy
President, CEO & Director

The overall cost, the spread between the cost of funds and what you've paid off should result -- if we didn't deploy the money and only paid down the loan, the total cost would be $3 million for the year. But obviously, we're going to put that money to work. But just reducing those lines of credit at this point, if you stayed exactly where you were for 12 months, the total cost would be about $3 million.

Eugene W. Landy
Founder & Chairman of the Board

We have a very strong balance sheet now. I'm observing other REITs deleveraging. One particular REIT deleveraged by $1 billion, reduced their income net $50 billion (sic) [$50 million], did it on purpose just for the purpose of deleveraging. Another one deleveraged by $1.9 billion, which was $75 million, $80 million. And the companies are more valuable, the safer they are. In real estate, sometimes $1 million worth of income is worth $10 million and sometimes it's worth $20 million. The trend seems to be that the value of the company, the safer, the stronger bulwarks you have, the more the public values our company. So we paid off almost all our debt. We have unused bank lines. We have mortgage capabilities that are tremendous. In fact, what we like about the preferred stock is somewhere down the road, we're going to go to the government-sponsored entities and refinance a lot of our communities so we will have tremendous borrowing power. So we're trying to create financial strength and stability in the company. And the preferred was an amazing job on the part of our staff and our attorneys and the investment bankers. It was done very quickly with top institutions in the country. And we're very proud that we could raise $100 million so quickly from so many good institutions.

Operator

This concludes our question-and-answer session. I would like to turn the conference back over to Samuel Landy for any closing remarks.

Samuel A. Landy
President, CEO & Director

Thank you, operator. I would like to thank the participants on this call for their continued support and interest in our company. As always, Gene, Anna and I are available for any follow-up questions. We hope to see you at NAREIT's REITweek event in June, and we look forward to reporting back to you after our second quarter. Thank you.

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