S&P Global
Market Intelligence

UMH Properties, Inc. NYSE:UMH

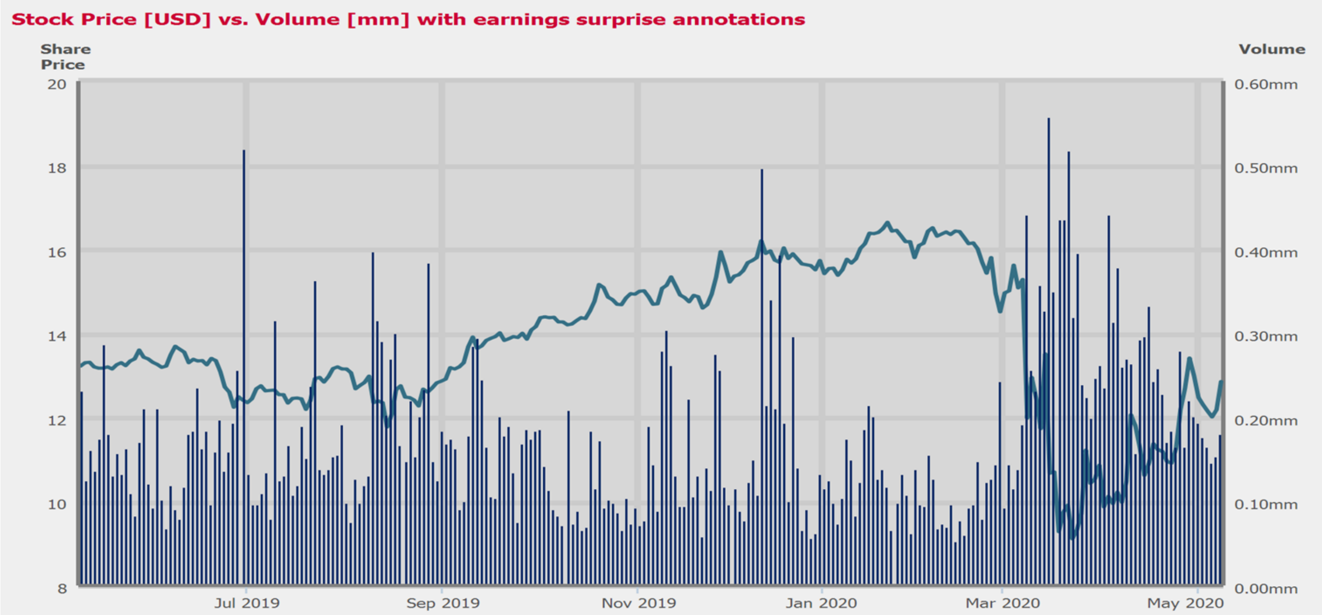
FQ1 2020 Earnings Call Transcripts

Friday, May 08, 2020 2:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2020-			-FQ2 2020-	-FY 2020-	-FY 2021-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS (GAAP)	(0.42)	(1.04)	NM	(0.07)	(0.72)	(0.11)
Revenue (mm)	39.15	37.57	▼ (4.04 %)	41.68	165.08	180.56

Currency: USD
Consensus as of May-08-2020 12:24 AM GMT



- EPS (GAAP) -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2019	(0.06)	(0.15)	NM
FQ3 2019	(0.05)	0.14	NM
FQ4 2019	(0.06)	(0.08)	NM
FQ1 2020	(0.42)	(1.04)	NM

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Call Participants

EXECUTIVES

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

Brett Taft
VP & COO

Eugene W. Landy
Founder & Chairman of the Board

Nelli Madden
Director of Investor Relations

Samuel A. Landy
President, CEO & Director

ANALYSTS

Barry Paul Oxford
D.A. Davidson & Co., Research Division

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

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

Presentation

Operator

Good day. And welcome to the UMH Properties First Quarter 2020 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 such 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 2020 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 cautionary 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; Brett Taft, Vice President and Chief Operating Officer; Jim Lykins, Vice President of Capital Markets; and Daniel Landy, 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, 2020, and provide an update on the state of our operations given the COVID-19 pandemic.

While all of our communities are under stay-at-home orders of some sort, our community personnel are continuing to maintain our communities and deliver essential services to our residents. In most states where we operate, we are not permitted to conduct in-person sales and leasing. However, we have been able to sell and rent homes remotely by providing online visual tours of the home and completing all required paperwork using our online application and digital signature software. Our website also allows for the online payment of rent.

We are pleased with the state of our operations. Remarkably, March and April sales are holding at 2019 levels, and occupancy is increasing. Many of our residents have been impacted financially by this stay-at-home order. A large portion of our residents continue to remain employed throughout the crisis, and many are on fixed income. Keeping all of this in mind, our rent collections have been strong. We collected 94% of our April site and home rental charges. As of May 5, we have collected 64% of our May site and home charges as compared to 53% at this point in May of 2019. We expect that any delinquent tenants will be able to pay the rent when and if they are able to resume work or receive their stimulus checks or unemployment checks.

Our employees have worked incredibly hard to further the goals of UMH. These are truly challenging times in difficult work environments, and we are proud of our team, which has stepped up to the challenge.

UMH continues to maintain a solid balance sheet. During the first quarter, we utilized our preferred ATM to raise net proceeds of approximately $63 million of our Series D preferred stock. Although this preferred issuance has had a negative impact on first quarter earnings, this capital ensures the financial strength of UMH. This will also allow UMH to continue to invest in new rental homes, expansions and capital improvements.

We are also pleased to announce that we have a signed term sheet in place with a lender to obtain $100 million of fixed-rate mortgage debt on a portfolio of free and clear communities at an interest rate below 3%. We are positioning the company to be able to redeem our $95 million 8% Series B perpetual preferred stock in October with proceeds from this fixed-rate mortgage debt. Assuming no unforeseen issues related to closing on this transaction, we anticipate an increase in FFO of approximately $5 million or $0.11 per share annually as a direct result of this preferred redemption.

UMH is also working with the GSEs to pioneer the recognition of rental manufactured homes in communities as rental housing that should be entitled to the same financing as traditional apartments. Further success in obtaining that recognition will allow us to finance our $310 million of rental homes that were purchased with preferred stock, reducing our cost of capital.

I am pleased to report that rental and related income for the quarter increased 12% year-over-year. Our community net operating income for the quarter increased 22% year-over-year. These outstanding operating results are a testament to our value-add business plan.

The rental home program continues to perform very well. At quarter end, we owned 7,543 rentals, which is an increase of 878 over the first quarter of 2019. Our rental home occupancy rate was 94%. Although our rental home orders were delayed by the crisis, we anticipate adding an additional 750 to 800 rental homes to our portfolio this year. The rental home program is a key component of our business plan. It allows us to quickly and efficiently increase occupancy, resulting in improved community operations.

Our same-property portfolio generated exceptional results to begin the year. Same-property NOI grew 14%. This is the second quarter in a row that we have delivered double-digit same-store NOI growth.

As we complete turnaround work at our recent acquisitions, we have seen increased demand for rentals and sales. This, paired with the reduction in operating expenses, should result in significant NOI growth and ultimately strong value creation. This value can be realized when we finance or refinance our communities.

Our same-property occupancy rate improved 180 basis points to 84.6% from the same quarter last year and 100 basis points from the year-end. This translates to an increase of 416 revenue-producing sites year-over-year and 215 sites year-to-date.

We remain encouraged by our sales operation and believe that this area of our business has the potential to deliver meaningful profits. Gross sales for the quarter were $3.2 million, representing a decrease of 12% over the same period last year. We are pleased to report that our April sales were $1.9 million, marking a slight improvement over April of 2019. As a result of obtaining lower cost of capital, we are reducing our rate on retail financing to 5.99% from 6.75%, which should increase sales and occupancy.

Our sales for the quarter were negatively impacted by the stay-at-home orders issued in March. We believe that as business returns to normal throughout the year, our results will improve. We have several expansions coming online in good sales markets that should drive improved sales results.

We are proud to announce that the Manufactured Housing Institute recently named UMH's Sunny Acres Sales Center in Somerset, Pennsylvania the 2020 Retail Sales Center of the Year. This award is a testament to UMH's dedication to providing quality affordable housing and enhancement of the buying experience for its customers.

Most of our expansions continue to move forward despite the delays that the pandemic has caused. Notably, the development of our Tennessee expansions continues to progress. We have started ordering homes for 2 locations and should have them set up and ready for open houses at the beginning of the summer.

As a result of the delays caused by the pandemic, we now expect to obtain approvals for 408 sites and to complete the development of 200 sites. Initially, we had planned on obtaining approvals for 750 sites. We now expect to obtain the remaining approvals in the first half of 2021. These newly developed sites will allow us to continue our sales and rental growth at communities that have consistently produced excellent results.

We have 2 communities under contract. These communities are located in Pennsylvania and New York and contain 315 sites, which are 63% occupied. They are in close proximity to communities that we already own. The purchase price for these communities is approximately $8 million, representing a cost per site of $25,000. These communities are value-add communities in relatively good condition. They will benefit greatly from our rental home and marketing programs. The acquisition market for high-quality properties remains competitive. We are looking at several other opportunities and anticipate continued growth of our pipeline.

Looking forward to the remainder of 2020, while there is uncertainty stemming from the COVID-19 pandemic, we still believe that we are well positioned to execute our growth strategy, deliver improved property-level operating results and increase FFO per share. Although this crisis has delayed our rental home purchases and some rent increases, we believe that we are still on track to order 750 to 800 homes and obtain the majority of our annual rent increases. We have already declared our dividend for the second quarter. And given the current strength of UMH's financial position, we do not anticipate any changes to our current dividend policy.

UMH has been laying the groundwork to substantially increase FFO per share. The plan is to improve our community-level operating results and reduce our cost of capital by taking advantage of historically low interest rates. We are succeeding in both. The capital raised from issuing preferred stock results in near-term pressure on FFO per share. We believe shareholders should recognize that UMH has a 52-year history of successfully deploying capital. Although the new capital was not immediately accretive, it will be as we are able to invest the capital into our portfolio and future acquisitions. Our substantial improvement in operating results, in addition to a meaningful breakthrough in obtaining lower-cost debt, should translate in the near future to increased FFO per share.

I would like to take this opportunity to thank our dedicated UMH team for all their hard work. We are proud of the results achieved despite the adversity that we have faced during the first quarter.

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

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

Thank you, Sam. Normalized FFO, which excludes realized gains on the sales of securities and other nonrecurring items, was $6.1 million or $0.15 per diluted share for the first quarter of 2020 compared to $6.5 million or $0.17 per diluted share for the prior year period. This decrease was primarily attributable to the impact of raising capital through our preferred ATM. This capital will allow us to continue our growth in a period of economic uncertainty, during which tapping the capital markets is more difficult.

Rental and related income for the quarter was $34.4 million compared to $30.6 million a year ago, representing an increase of 12%. Community NOI increased by 22% for the quarter from $15.5 million in 2019 to $18.9 million in 2020. These increases are attributable to our acquisitions, rent increases and the success of our rental home program. Our monthly site rent increased by 3% to $453 over the same period last year. Our monthly home rent increased by 3.5% to $775 over the same period last year.

Same-property income for the first quarter increased 7.6% over the same period last year, while expenses remained relatively stable, resulting in same-property NOI growth of 14%.

Sales of manufactured homes decreased 12% for the quarter from $3.6 million in 2019 to $3.2 million in 2020. We sold a total of 62 homes, of which 20 were new home sales and 42 were used home sales. We anticipate that sales will improve as the impact of the virus is reduced and stay-at-home orders are lifted.

As we turn to our capital structure, at quarter end, we had approximately $416 million in debt, of which $372 million was community-level mortgage debt and $44 million was loans payable. 90% of our total debt is fixed rate. The weighted average interest rate on our mortgage debt was 4.14% at quarter end compared to 4.29% in the prior year. The weighted average maturity on our mortgage debt was 5.7 years at quarter end compared to 6 years a year ago.

UMH further increased our liquidity by utilizing our preferred ATM program. During the quarter, we sold 2.6 million shares of our 6.375% Series B cumulative redeemable preferred stock at a weighted average price of $25.06 per share, generating net proceeds of approximately $63.1 million. We plan to use these proceeds for general corporate purposes, which includes the purchase of manufactured homes for sale or lease to customers, expansion of our existing communities, acquisitions of additional properties and paying down our lines of credit on a temporary basis.

At quarter end, UMH had a total of $469 million in perpetual preferred equity. Our preferred stock, combined with an equity market capitalization of $447 million and our $416 million in debt, results in a total market capitalization of approximately $1.3 billion at quarter end, representing an increase of 4% over the prior year period.

From a credit standpoint, our net debt to total market capitalization was 30%. Our net debt less securities to total market capitalization was 24%. Our net debt to adjusted EBITDA was 5.4x. Our net debt less securities to adjusted EBITDA was 4.3x. Our interest coverage was 3.9x. And our fixed charge coverage was 1.5x.

From a liquidity standpoint, we ended the quarter with $14.6 million in cash and cash equivalents, $60 million available on our unsecured credit facility with an additional $50 million potentially available pursuant to an accordion feature and $34 million available on our revolving lines of credit for the financing of home sales and the purchase of inventory.

We also had $78 million in our REIT securities portfolio, encumbered by $18.5 million in margin loans. This portfolio represents approximately 6% of our undepreciated assets. We limit our portfolio to no more than 15% of our undepreciated assets. With the exception of reinvesting our dividends in Monmouth Real Estate, we are committed to not increasing our investments in the REIT securities portfolio.

We continue to work on providing the company with additional financial flexibility. As Sam mentioned, we have a signed term sheet in place with a lender to finance a portfolio of free and clear communities with fixed-rate mortgage debt at rates below 3%, generating proceeds of approximately $100 million. We are also in discussions with several lenders to create a credit facility utilizing our rental homes as collateral with favorable pricing. We plan to use these sources of capital to redeem our 8% Series B perpetual preferred stock, generating approximately $5 million of additional FFO or $0.11 per share annually. These sources of capital will also allow us to continue to invest in our rental home program, capital improvements, expansions and additional acquisitions, further improving our operating results and the quality of our portfolio. With our strong financial position and access to the capital markets, we are well-positioned 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. At year-end, we were experiencing historically low unemployment rates, rising wages, strong GDP growth, stock market highs and endless possibilities for the economy. Over the past few weeks, more people have filed for unemployment than ever before. GDP shrunk 4.8%. We have experienced the biggest contraction since the financial crisis. And there is concern about how long it will take to reopen the economy and whether or not there will be long-lasting consequences. Fortunately, we've always positioned UMH for a black swan event. Our solid balance sheet has put us in a position to excel during a time when many are trying to stay in business.

The oil and gas industry has also been hit hard during this crisis. Global stockpiles are full, and there simply is not enough demand to support the oil prices we have become accustomed to. That being said, the investments that we have made in the Marcellus and Utica Shale areas should continue to do well. The communities that we have acquired have a stable residency base that is not overly concentrated in the oil and gas business. After polling our community managers in the Marcellus and Utica Shale regions, we believe that less than 10% of our residents are directly employed in the oil and gas industry.

The upside in our portfolio will be realized with strong oil, gas and ancillary businesses. We remain optimistic about this region. The disruption of the supply chain during this crisis demonstrates the need to bring manufacturing back to the United States, which should in turn drive incremental demand for workforce housing.

Low-cost energy increases the ability of our manufacturers to compete in the global market. Panda plants are being built to turn natural gas into electricity. Cracker plants are being developed to turn natural gas by-products into plastics. Pipelines are being built to deliver this energy all over the Northeast. As these multibillion-dollar developments and investments continue to progress, we will see the continued transformation of this region and growth in our overall occupancy and operating results.

UMH has a mission to provide affordable housing for the nation. Our response to the pandemic crisis, which does increase risk and uncertainty, is to continue on this mission. UMH has the financial resources and the experienced staff to build, buy and expand manufactured housing communities. The need is now. In the future, land and construction costs may be much higher due to a combination of inflation and demand exceeding supply.

Over the decades, we have created a platform that enhances the quality, value and stability of our portfolio of properties. We endeavor to also generate increased value per share for our shareholders. As we're able to execute on our business plan, these increases in value will be reflected in our stock price.

Question and Answer

Operator

[Operator Instructions] Our first question today will come from Rob Stevenson with Janney.

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

Can you guys talk about what you're seeing in terms of ability to absorb the rental rate increases and occupancy levels across some of your assets in the Marcellus and Utica Shale region? I mean has that started to basically impact your ability to drive the 4% rental rate bumps there at all?

Samuel A. Landy
President, CEO & Director

We've been talking to our managers and regional managers, and it's impressive how strong pent-up demand is. Tennessee is almost back open for business, and they're busy in Tennessee. Each state we talk to, very optimistic about the demand for our product and their ability to fill sites. We've deferred our rent increases during the crisis so that they're not incurring April, May and potentially June, but they will increase thereafter. And our consistent experience is because we upgrade and take care of our properties, passing through 4% rent increases is not a problem. And Brett, if you want to be more specific on various items?

Brett Taft
VP & COO

Yes, sure. So on the occupancy front, I do just want to point out that in the first quarter, the majority of our occupancy increase did come from Ohio, which is the Utica Shale region. That was 149 sites of our total occupancy gain. So we're definitely continuing to see strong demand in that region.

If we look into May, we did continue to improve our occupancy rates. We added 91 overall units from April to May and that’s during this pandemic. So we really haven't seen a decrease in demand. All of our communities are still reporting very strong demand. And given the circumstances, we're very pleased with what we've been able to accomplish.

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

Do you guys have any idea at present what percentage of the tenants in your rental units are now unemployed?

Samuel A. Landy
President, CEO & Director

To the extent we know, we've only asked people what's going on. And I think we believe as many as 30%.

Brett Taft
VP & COO

Yes. It's a tough question to answer, and we are looking forward to everybody getting back to work in the coming weeks. But what we understand is it's 30% across the board. When we look into our residency base, approximately 23% of our residents are 65 and older on fixed income, and about 39% of our residents are 55 and older. So while employment is important and we do want everybody to get back online, we do think that those 2 items are one of the reasons why our collection rates are as strong as they are.

Samuel A. Landy
President, CEO & Director

And just that 30% unemployed, that's temporary unemployed, and they do collect unemployment benefits. And the rent collections have finished strong, as we already mentioned.

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

Those age cohorts, is that for either the entire portfolio or for the -- for just the site rentals? I mean the rental units have got to be a lower age demographic, though, right?

Brett Taft
VP & COO

That's across the entire portfolio, correct. We can look into that and get back to you, break it out between rental and owned, but that would be the entire portfolio.

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

Okay. And to what extent are you guys impacted by some of the eviction bans that are -- that you see in the apartment space where they've taken Fannie or Freddie or where there's individual states or local governments that have put eviction bans in?

Samuel A. Landy
President, CEO & Director

So prior to the governors creating these eviction bans, we made the decision that we were not filing evictions anyhow, that if people couldn't pay April rent, May rent, what we would do, if they were a resident in good standing, is defer that rent so that when they're back at work, they'll pay the first month they're back at work, so, say, June 1. And if they didn't pay May, they'd pay that 25% per month for the following months. And we believe by giving them an affordable deferral payment, they will, in fact, pay because they know that we're providing the highest-quality housing there is at the price. And if they don't pay us, they're going to wind up living somewhere else that's not as good for a higher price. And they're proving that out by the percentage paying the rent. We've entered into...

Brett Taft
VP & COO

It's only 80 payment agreements to this point, and that includes April and May.

Samuel A. Landy
President, CEO & Director

So we're very satisfied with how our product is working. We've had an incredible marketing program for about 3 years. And part of our marketing program is not just to bring new residents in but to let the existing residents know what a great choice they made by choosing UMH communities or rental housing in our communities. And they're aware of this. And as long as it's at all possible, we believe they will pay the rent.

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

Okay. But I mean that's a decision that you guys made in your portfolio. I mean to what extent, though, are any of these local places that you're operating in subject to government eviction bans? Like, I know you don't operate in New York City or in Seattle, but those just -- Seattle just extended it to the end of the year, and New York extended it further into the fall. Just curious, I mean your ability to extend that on your own is going to be limited. I mean is it -- and so eventually, you'll have to get back to doing stuff, what needs be done. Just curious as to where you are today legally not able to come end of summer if you choose to.

Brett Taft
VP & COO

Yes. It's an issue across the portfolio. There's no doubt about it. It's -- and I don't have it broken down state by state. But you look at Pennsylvania, Governor Wolf just announced yesterday pausing all eviction proceedings, et cetera. We also do have, I believe, it's 43 GSE loans. So we're not able to pursue evictions, charge late fees, et cetera, until I believe it's the middle of July at this point. So right now, it will be seen what happens the rest of the year and what happens when everything opens up. But certainly, for the foreseeable future, pursuing evictions will be an issue.

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

Okay. That was what I was looking for. That was very helpful. And then last one for me. Anna, what capital source are you planning to use today to redeem the Series B? I mean obviously, it'd be great if the common stock price were $20 or something. But assuming that that's not in the cards, is that debt? Is that additional preferred? Do you use some of the securities portfolio? How are you thinking about taking out that -- it's roughly $100 million, I think, of Series B?

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

Well, we have a term sheet right now, which will give us approximately $100 million at under 3%. And so that is one of the sources that we would be using to call the preferred.

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

Okay. That's secured debt?

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

That will be secured debt. And money is fungible, but we have other sources, too, including our lines of credit, et cetera.

Operator

Our next question will come from Barry Oxford with D.A. Davidson.

Barry Paul Oxford
D.A. Davidson & Co., Research Division

When you were looking at that debt in that rate, it's a good rate, and you've seen the rate come down, but have the spreads kind of come out a little bit, too? Have you noticed that? Or are the spreads kind of staying where you have normally seen them?

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

Well, the spreads have increased a little bit. But because the 10-year has gone down so tremendously, the rate itself has gone down. So that was important to know. So it will be under a 3% rate, which we think would be fantastic. This will be for a 10-year loan.

Barry Paul Oxford
D.A. Davidson & Co., Research Division

Great. Right, absolutely. Great. And Sam, could you discuss a little bit about the REIT portfolio and the valuation?

Samuel A. Landy
President, CEO & Director

Well, Eugene Landy's here, so I'll let him talk about the REIT portfolio.

Eugene W. Landy
Founder & Chairman of the Board

Yes. The REIT portfolio is about $80 million now, and we have 23,000 sites with over $1 billion. So the REIT portfolio is a small percentage, but we've been very disappointed in it. But it's been very volatile. It's about $80 million now. And a few weeks ago or a month ago, time goes by, it was $124 million. And the fluctuations every day depend on how fast we're going to get the U.S. economy up and rising. We have a great deal of sympathy for many of the other REITs. They were well run, they were well capitalized, and they lost their top line. And if you lose your top line and have no income, it makes it very difficult to run a REIT.

Fortunately, UMH, our top line is strong. The affordable housing crisis is real. Our product is in demand, and our tenants seem to have the ability to continue to pay rent. So we're not quite in their position. But that's hurt the REIT portfolio some, and we're going to see how they go. We follow our portfolio of stocks very closely. And we've been hoping to get the portfolio up over $100 million, in which case, we could borrow $50 million from our banks at 1%. So -- but to date, we -- as we reported, we have to mark these to market, and we took a substantial reduction this quarter.

Operator

And our next question will come from Craig Kucera with B. Riley FBR.

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

I just want to circle back. I know it's not a big part of your portfolio right now with the tenants that aren't paying. But are you basically saying that if someone misses a month, you're going to charge them sort of 25% once they go back to work of incremental rents? So basically, if they miss a month or 2, you'll recover all of that rent by year-end? Or how should we think about that?

Samuel A. Landy
President, CEO & Director

Exactly, exactly. So right, to make their cash flow easiest on them, the month they're back employed, they'll owe that month rent in full. And whatever they didn't pay earlier, they'll pay 25% per month.

Eugene W. Landy
Founder & Chairman of the Board

But you have to realize that many of our tenants who are getting unemployment insurance or grants from the government actually are getting checks that give them more income right now than they had before the pandemic crisis. So we only had how many people?

Brett Taft
VP & COO

80 people out of them with payment agreements, yes.

Eugene W. Landy
Founder & Chairman of the Board

80 people out of how many invested? It's 18,000?

Brett Taft
VP & COO

19,000.

Eugene W. Landy
Founder & Chairman of the Board

19,000. So yes, it is a small item. And we've found our tenants have a pretty good ability to continue to pay rent even in this crisis.

Samuel A. Landy
President, CEO & Director

And I'll just point out, what manufactured housing has proven over decades is that there's no more stable stream of income than resident-owned homes in the community. And that's about 11,000 of our homes. And that's so stable because the resident has equity in the house. So if a resident was not able to pay for a substantial period of time, there is that equity in the house which could become ours if things were bad enough. But the other 7,000 rental homes we've always anticipated would perform at least as well as apartments. And they are, in fact, performing as well or better than apartments.

So -- and then you add the fact that demand greatly exceeds supply, so that if someone wasn't able to pay and the unit became vacant, there's an immediate tenant to take their place.

Craig Gerald Kucera

B. Riley FBR, Inc., Research Division

Got it. And circling back to the acquisitions, I know you mentioned that there were a couple of properties for about $8 million. I think a few months ago, you guys were talking about maybe looking at doing $25 million in acquisitions for the year. Was -- is the $8 million a component of that? Or is that on top of that $25 million? Or have you basically put that $25 million on hold?

Brett Taft
VP & COO

Yes. So right now, it's a tough question to answer looking at the $25 million. That $8 million, I would say, at this point, would be included in the $25 million. We are continuing to look at deals. This pandemic has basically paused things for a moment. But there are some deals out there. Pricing is similar to where it was. So we're waiting to see what happens as this evolves and as the economy begins to reopen. I mean interest rates are as low as they've been, so sellers think they're entitled to the same pricing.

We will see where it goes. But at the moment, we've got that $8 million. We're looking at some other properties. But at this point, we don't have anything to report as being added to the pipeline.

Eugene W. Landy
Founder & Chairman of the Board

Yes. I'm not going to repeat what we -- what I said on the prepared remarks. We are looking for -- to do increased acquisitions and do our expansions and continue to provide affordable housing. And we are being -- we're prepared to be very aggressive to continue to grow the company. We think there's going to be inflation. We think there's going to be costs going up. And we think that the housing shortage is very, very real. And the demand for our product is tremendous.

I always point out to people, they can do their own survey. They can go on the Internet and see what our product sells for: 3 bedrooms, 2 baths rents for $800 a month. And then go on a service like Zillow and see what's available in the area at $800 a month. They'll find that we exceed in value of properties that rent for $1,100, $1,200 a month. We provide 3 bedrooms, 2 baths. And you get 3 bedrooms and 1 bathroom for $1,200 a month, and we charge $800 a month. So we're very, very competitive. And there's a reason therefore why we're having the excellent results in our rental programs despite the pandemic.

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

Right, right. Great. Sam, you mentioned that you thought you were going to do 750 to 800 rentals this year. Just to double-check, is that what you hope the cumulative amount is for the year? Or is that incremental to the 150 you did in the first quarter?

Samuel A. Landy
President, CEO & Director

No, that's cumulative for the year. We expect -- we were hoping to do better. We got slowed down for probably 4 to 6 weeks, but we still think we'll do 750 to 800 rental units for the year.

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

Okay. Great. And circling to your same-store results, which were obviously very, very strong, again, very limited operating expenses as we saw last quarter, which I believe was after some tree removal costs had been removed. Just as a reminder, were those tree removal expenses fairly ratable throughout the first 3 quarters of the year? Or were they incurred primarily in the first half?

Samuel A. Landy
President, CEO & Director

Well, I'll let Anna answer that, but before I do that...

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

Yes, they were -- sorry. They were incurred in the first half. That $375,000 was in the first quarter, and that's a utility billing dispute as well as windstorm.

Samuel A. Landy
President, CEO & Director

What I want to point out at this time, because it's a good time to point it out, you've been following our story all these years. And we've known that we have to hit 80% occupancy for communities to become efficient. After you hit that 80%, communities with unseparately metered water and sewer will operate at a 50% expense ratio. And if it's separately metered and the residents are paying the water and sewer, they'll perform at a 30% expense ratio. We're now up to 84.6% occupancy, so that this is working. And as we go to 94% occupancy, that next 10%, our efficiencies are really there. So that higher percentages -- just like you just saw this quarter, but it's going to happen throughout the future, higher percentages of the gross will go to net because we've gotten over that 80% occupancy. And we pointed out last year on the call that approximately $3 million in last year's operating expenses were related to the turnaround of the properties that we had purchased during the past 3 years so that those properties had the additional tree removal, additional repairs and maintenance.

Looking forward, the next thing that will increase expenses is relatively minor. It's the expansions opening. So as you open expansions, you have upfront costs before you get adequate sales and occupancies to pay for them. But when I look at the number of lots and how many sites there are, I don't think it's going to be -- I don't think it's going to stop our progress. I think our -- I think that this was the first real taste we gave everybody of how well our plan is working. We knew it would work, but now we could show you it worked. And I think that will continue as we go forward. It has to do with the installation of separate meters. It has to do with our website, all the efficiencies coming into place as we hit the 80% occupancy and everything we've been working on for 7 years plus coming together.

Brett Taft
VP & COO

And just to add some numbers to what Sam is saying there, our 2015 group of acquisitions during the quarter grew income by 12% and NOI by 27%. That's basically -- from the time of acquisition, it was 64%. Now it's 70%. 2016, 16% to 17% income growth, 37% NOI growth, 74% occupancy at the time of acquisition, 92% occupancy now. 2017 acquisitions were 13% income growth, 27% NOI growth. They were 65% occupied at the time of acquisition and 80% now. And 2018's acquisitions, 11% income growth, 16% NOI growth. And we're still working on the occupancy there, but they've gone from 79% to 81%. So these numbers just really demonstrate the strength of our value-add business plan.

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

Great. No, that's good color. And one more for me. Anna, you mentioned that you guys were looking at a credit facility with rental homes as collateral. Is the pricing that's in discussion right now reasonably comparable to what you're seeing on your other unsecured line of credit or other floating-rate debt?

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

Well, before I answer that, I did want to clarify, the $375,000 that was in the first quarter, that was for a utility billing dispute that went over 10 years. So we settled it for $375,000 in the first quarter of last year. There were some additional tree removals towards -- throughout the rest of the year. But as we said, as Sam and Brett said, these were primarily for the newer acquisitions.

Now regarding the line of credit, what we're working on is the rates will be, I'm going to say a little bit higher than what our BMO line of credit is now, but it's pretty much in line with the rates that we are obtaining on our notes receivable line of credit. So it's prime -- it's a little over prime, I'll say. We are in discussion with a few banks on this, and they seem very receptive. This will be a real breakthrough because in the past, the loans on our rentals, if we wanted to obtain them, were at 6%, 7%. And we did not obtain those loans. Instead, we had issued preferred stock to purchase our rental units.

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, Brett and I are available for any follow-up questions. We will be participating in NAREIT's REITweek in June, which will be a virtual event this year, and hope you will be able to join us. We look forward to reporting back to you in August with our second quarter 2020 results. Thank you, and stay safe.

Operator
The conference has now concluded. Thank you for attending today's presentation. The teleconference replay will be available in approximately 1 hour. To access this replay, please dial U.S. toll-free 1 (877) 344-7529 or international 1 (412) 317-0088. The conference ID number is 10140407. Thank you, and please disconnect your lines.