UMH Properties, Inc. NYSE:UMH

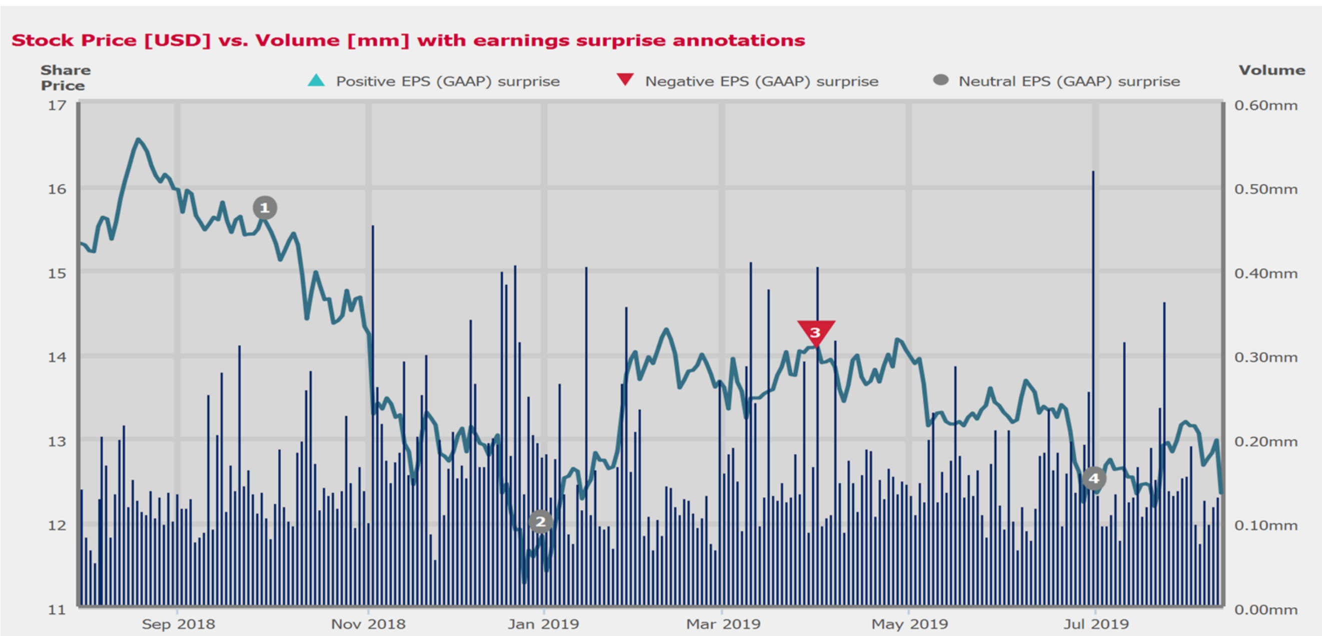
FQ2 2019 Earnings Call Transcripts

Friday, August 09, 2019 2:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2019-			-FQ3 2019-	-FY 2019-	-FY 2020-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS (GAAP)	(0.06)	(0.15)	NM	(0.05)	0.01	(0.16)
Revenue (mm)	38.43	37.23	(3.12 %)	40.72	154.93	176.97

Currency: USD
Consensus as of Aug-09-2019 1:39 AM GMT



- EPS (GAAP) -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2018	(0.02)	(0.31)	NM
FQ4 2018	(0.04)	(0.88)	NM
FQ1 2019	0.18	0.15	1 (16.67 %)
FQ2 2019	(0.06)	(0.15)	NM

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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

Albert Sebastian;Prospect Advisors LLC;Portfolio Manager and Founder

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

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

Merrill Hadady Ross
Compass Point Research & Trading, LLC, Research Division

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

Presentation

Operator

Good morning, and welcome to UMH Properties Second 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 second 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 that 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 second 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 second quarter ended June 30, 2019. Our business operations continued to progress as expected. Our top line income and sales growth, coupled with improved same-property occupancy rates, continued to validate our business plan.

Rental and related income for the quarter was up 11% over last year, sales were up 51% over last year and same-property occupancy is up 140 basis points or 301 units. The improvements that we have made at our communities has resulted in increased demand at our locations.

Normalized FFO per share for the quarter was $0.14 as compared to $0.18 last year, representing a decrease of 22%. This decrease in per-share FFO can primarily be attributed to our recent preferred issuance and a reduction in dividend income from our REIT security portfolio.

During the quarter, we issued $100 million of our 6.75% Series C Perpetual Preferred Stock. This transaction will allow the company to accomplish our future growth objectives that had a short-term dilutive effect of $0.03 on our second quarter earnings. As we deploy this capital into new acquisitions, rental homes and expansions, our earnings will rise accordingly.

We are also still feeling the impact of the reduction in our dividend income from our REIT securities portfolio. This had a negative impact of approximately $0.01. As we have already stated, our business plan is long term in nature. It typically takes 2 to 3 years for value-added communities to become fully accretive to earnings.

The value created by our business plan is demonstrated by our most recent community refinancing. Subsequent to quarter end, we obtained 2 mortgages totaling approximately $39 million. Two of the 3 communities included in these loans had existing mortgages with a balance of approximately $11.6 million. These 2 communities appraised at $19.8 million in 2009 as compared to $40 million this year, representing an increase in value of 102% over the 10-year period.

The appreciation of our properties is a fundamental component of our long-term business plan. Many of our encumbered properties also exhibit similar appreciation, which will be realized when they are refinanced. During the quarter, as mentioned, 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 $96.7 million. While this issuance had a short-term dilutive impact on our earnings of approximately $0.03 this quarter, this is expected as it takes time to fully deploy the proceeds.

We are working to deploy this capital into new acquisitions, rental homes and expansions, which will improve our earnings. In 2020, our high coupon 8% Series B Preferred Stock is callable, which should allow us to increase our earnings further by reducing our overall cost of capital.

Subsequent to quarter end, we closed on the acquisition of 3 communities containing 1,100 sites for a total purchase price of approximately $31 million or $28,000 per site. The blended occupancy rate for these communities was 54% at the time of acquisition. These communities are well located and will benefit from our marketing, sales, rental and capital improvement programs.

We are optimistic about our recent entrance into the Perrysburg, Ohio market. We have acquired approximately 1,150 total sites in this market, of which only 55% are occupied. These vacant sites present tremendous value-add potential given the strength of the immediate employment market. These communities are located near a Fiat Chrysler manufacturing plant, a large Walgreens distribution center and a brand-new First Solar manufacturing plant. It was also recently announced that a 700,000 square foot fulfillment center is being developed for Amazon. This fulfillment center is expected to create at least 1,000 jobs with a possibility to grow to 3,000 jobs. The transactions required $23.5 million in equity, for which we utilized some of the proceeds from our recent preferred offering. We have one additional property under contract, which is expected to close within the next few weeks.

The acquisition market remains extremely competitive. Property valuations in our sector remain at all-time highs. We continue to seek acquisitions that are accretive to earnings and meet our acquisition criteria.

Home sales continued to accelerate throughout our portfolio. Gross sales for the second quarter were $5.8 million versus $3.9 million last year, representing an increase of 51%. Year-to-date, gross sales are approximately $9.5 million versus $6.4 million last year, representing an increase of 49%. Year-to-date, we have sold 159 total homes, which is an increase of 28% over the prior year. Our average sales price improved to approximately $60,000 versus approximately $52,000 last year. It is also noteworthy that for the second quarter, our sales generated a net profit of $178,000 as compared to a $288,000 loss last year. We believe we can continue to grow sales volume and profitability.

Our same-property results continued to come in strong. Year-to-date, same-property income increased 7%. Same-property expenses increased 10%, resulting in a 4% increase for same-property NOI. Same-property occupancy for the year is up 140 basis points or 301 newly occupied units.

Our same-property expense ratio for the second quarter was 44.4% as compared to 42.9% in 2018. Increasing occupancy by 301 units resulted in higher-than-normal expenses but will generate approximately $900,000 in new revenue over the next 12 months, effectively reducing the expense ratio in the future.

Our average site rental rate as of the end of the second quarter is $451 as compared to $437 last year, representing an increase of 3%. Our average home rental rate including site rental for the same period is $759 as compared to $737 last year, representing an increase of 3%.

We are pleased to announce that we have broken ground on 3 expansions and expect to begin development at several more later this year. We expect to deliver 170 sites in 2019, 645 in 2020 and 580 in 2021. The development process is tedious and cumbersome, but we are satisfied with our ability to get expansions approved and developed. These expansions will help to drive additional home sales income as the sites come online.

There continues to be a shortage of quality affordable housing across the nation. We are seeing strong demand for our product across the portfolio. Our communities are in markets with improving demographics, growing employment base and rising wages. This has resulted in sales being stronger than they have been in at least a decade.

Our rental program performance continues to perform very well. We have consistently proven that our business plan of acquiring value-add communities and improving them builds long-term value for our shareholders. Over time, this has allowed us to build an irreplaceable portfolio of high-quality communities.

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. Funds from operations, or FFO, was $5.7 million or $0.14 per diluted share for the second quarter of 2019 compared to $6.2 million or $0.17 per diluted share for the prior year period.

Normalized FFO, which excludes realized gains and losses on the sale of securities and other nonrecurring items, was $5.7 million or $0.14 per diluted share for the second quarter of 2019 compared to $6.7 million or $0.18 per diluted share for the prior year period. As Sam mentioned, this decrease in per-share FFO is primarily attributable to the impact of our raising capital and a reduction in dividend income from our securities portfolio.

Rental and related income for the quarter was $31.4 million compared to $28.2 million a year ago, representing an increase of 11%. This increase was primarily due to community acquisitions, the addition of rental homes and the growth in occupancy.

Community NOI increased by 6% for the quarter from $15.5 million in 2018 to $16.4 million in 2019.

Our normalized operating expense ratio increased to 47.7% from 45%. The increase in expenses can be attributed to increases in sewer, rental home turnover and the growth of our community level staff. We have also paid increased incentives due to the occupancy of an additional 301 sites during the year. We expect the expense ratio to decline as new revenue originated during the first half of the year offsets the increased expenses.

As we turn to our capital structure, at the end of the second quarter, we had approximately $366 million in debt, of which $327 million was community level mortgage debt and $39 million were loans payable. 91% of our total debt is fixed rate.

The weighted average interest rate on our mortgage debt was 4.3% at the end of the second 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 5.8 years at quarter end compared to 6.4 years a year ago.

Subsequent to quarter end, we completed the financing/refinancing of 3 of our communities with total proceeds of approximately $38.8 million. These Fannie Mae mortgages are at fixed rate of 3.41% with 10-year maturities and principal repayments based on 30-year amortization schedules. Proceeds were primarily used to repay the existing 5.94% mortgages, which had a total balance of approximately $11.6 million. These new loans will further reduce our weighted average interest rates and lengthen our weighted average maturity.

As of quarter end, UMH had a total of $389 million in perpetual preferred equity. Our preferred stock, combined with an equity market capitalization of $498 million and our $366 million in debt, results in a total market capitalization of approximately $1.3 billion.

From a credit standpoint, our net debt to total market capitalization was 29%. Our net debt less securities to total market capitalization was 20%. Our net debt to adjusted EBITDA was 5.6x. Our net debt less securities to adjusted EBITDA was 4x. Our interest coverage was 3.4x. And our fixed charge coverage was 1.5x.

From a liquidity standpoint, we ended the quarter with $3.7 million in cash and cash equivalents, $75 million available on our credit facility and $20.7 million available on our revolving lines of credit for the financing of home sales and the purchase of inventory.

We also had $107 million in our REIT securities portfolio encumbered by $10 million in margin loans. This portfolio represents approximately 9.5% 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.

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

We are very proud of the business we are in and the portfolio that we have built. Manufactured housing is the most efficient and practical way to meet the affordable housing demand in America. We can provide a quality home in a safe community that is affordable for low to middle-class families. This is being recognized by elected officials, and we anticipate both some regulatory relief for the industry in the coming years and improved financing terms for affordable manufactured housing.

Recently, HUD Secretary Dr. Ben Carson organized an innovative housing showcase on the National Mall in Washington, D.C. UMH sponsored a single section home to show on the Mall. The excellent exposure that our product received from this event cannot be overstated. As we look to the future, this event and the need for affordable housing may lead to greenfield development opportunities for UMH.

Further, President Trump signed an executive order in June directing federal agencies to work together to facilitate the production of affordable housing. The executive order focuses on alleviating barriers that impede the production of affordable housing. The order also created a White House council on eliminating barriers to housing development, and one of its goals is to adjust federal programs to incentivize localities to reduce regulatory barriers or condition federal funding on such reductions of local impediments such as zoning and land use restrictions. These are all very positive developments for our industry.

The fundamentals of our business have never been better. The need for affordable housing will be with us for a long time. The strength of both our sales and rental operations is encouraging. As the company continues to grow, we will be able to operate more efficiently. We are well positioned to fill our 4,000 vacant sites and also obtain modest rent increases of 4% per year. Achieving both of these goals will result in significant earnings growth. As our community NOI improves, we can refinance our properties, effectively realizing property appreciation without selling any assets. That capital can then be reinvested into our core business or distributed to shareholders.
We will now be happy to take your questions.

Question and Answer

Operator

[Operator Instructions] And today's first question comes from Rob Stevenson of Janney.

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

Sam, you indicated you had one property under contract that you expect to close shortly. What does the pipeline look like behind that on the acquisition side?

Samuel A. Landy
President, CEO & Director

I'm going to let Brett answer that. Go ahead.

Brett Taft
Vice President

Yes. So that property, it's a 386-site community, 86% occupied. It should close within the next few weeks. Behind that, we don't have anything under contract at the moment. We are exploring several acquisition opportunities, but pricing hasn't been in line, haven't really wanted to get as aggressive as some of these deals are trading for. So we're working to build the pipeline, but at the moment, it is empty.

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

Okay. And then Sam, can you talk about expectations for occupancy going forward? Where are you experiencing stubborn pockets of vacancy where there's not much demand versus places where you -- all you need to do is essentially put a rental home on a site and you can get occupancy up? Can you help us think about how we should be thinking about that heading into next year?

Samuel A. Landy
President, CEO & Director

Well, first, our 300-unit improvement in occupancy is the best we've ever had. That's the equivalent of building and filling a 300-space community in 1 year. So that was incredible growth.

And each of the regions is growing. Yes, I was looking at the list. But there's been strength in all our markets over the past 12 months, and it's getting stronger. The only problems in accelerating our growth, it's difficult getting setup crews and rain is slowing it down. But as a general matter, we expect to go forward faster now than we did a year ago. Demand seems stronger. Our marketing is working. People accept the product. Rentals and the sales growth of 50% is phenomenal. And so it really appears that what we've done improving these properties and marketing those improvements has worked tremendously, and people out in the field are busier than ever in all our markets. I can't think of one that's going backwards.

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

Well, I guess, what's limiting you from increasing the number of rental units that you put in place next quarter by an incremental 25 or 50 over what you did this quarter, over first quarter? I mean what's limiting the acceleration of that program? Is it the availability of the homes? Is it the demand from the renters for it? Can you help us understand that?

Samuel A. Landy
President, CEO & Director

So the first quarter, it was just winter slowed down the setup of homes. But from here forward, I don't think anything is going to slow it down. You have issues getting enough setup crews and going fast enough there. But in terms of demand and the communities we've acquired, the new communities in Indiana and Ohio, demand is exceptionally strong and there's plenty of vacant sites to go faster. So we have that potential and we're working on it.

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

Okay. Because I mean if I look at it, you did 183 rental communities in the second quarter of '19 versus 224 in the second quarter of '18 and just trying to figure out whether or not there was something fundamental that sort of caused essentially a 40-unit decrease year-over-year or whether or not that picks up and we see 260 in the third quarter or something like that.

Brett Taft
Vice President

Yes. I just wanted to add one thing to that. Sam had mentioned the winter, but it's also been a very wet spring. It's been very hard to spot some of these homes on-site. So pair that with the shortage in set crews and that's why you see the reduction of 40 over last year.

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

Okay. Anna, I know you usually have the annual meeting in second quarter G&A. Anything else abnormal driving that increase this year?

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

No, G&A was approximately the same as it was last year. So I think we're okay with that. We do expect it to go up a little bit towards the end of the year due to some increases in personnel as well as some increased space that we may be taking.

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

Okay. And then did you guys make any buys in the securities portfolio this quarter?

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

Minimal. I mean I think what we usually do is we do the dividend reinvestment for the Monmouth REIT shares, but that was about it.

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

Okay. And then remind me, Monmouth is basically capped out and said that they're not doing any more investment other than their dividend reinvestment in you guys. Do you guys have the same program at this point in time?

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

Yes, pretty much so.

Operator

Our next question today comes from Barry Oxford with D.A. Davidson.

Barry Paul Oxford

D.A. Davidson & Co., Research Division

Sam, could you give us a little color into home sales and where you see that headed over the next 12 to 18 months?

Samuel A. Landy
President, CEO & Director

So we've been working every year on creating a real sales company and making sales a big part of UMH Properties. The fact that sales are up 50% and that they were now profitable proves it's working. At this moment, we're increasing the size of the Port Royal sales center, adding a multistory house and a modular. All of these things add to your expenses, but we're doing it because our people are proving they can do outside of the community land home deals, we can sell in the communities and we have the ability to continue to grow sales and to take the sales centers at existing communities and increase the volume of the sales they do both through the community and outside the community doing land home.

So it's difficult to put a percentage on it or tell you how quickly it'll happen, but each manager that gets their first commission check becomes a better salesperson, and we just see the ability to continue to grow this and grow its profitability.

Eugene W. Landy
Founder & Chairman of the Board

The United States is short, 2 million, 3 million, 4 million units of affordable housing and the shortage is growing each year. We are not building anywhere near the housing we built a decade ago. The manufactured housing industry is only 100,000 units a year. But decades, we were 200,000, 250,000 units a year. If this industry comes back to what it was to satisfy the need for affordable housing, we're talking about the industry doubling in size.

For that reason, UMH was 122 communities. One, they not only have a sales operation in each of those communities, but we intend to have 3, 4, 5 regional centers and participate in the growth. Now we have to see whether the government helps with financing be available and if the economy continues to expand and the country does succeed in fulfilling the need for affordable housing. So if this occurs, UMH will be a very profitable participant in that growth.

Operator

Our next question today comes from Albert Sebastian from Prospect Advisors.

Albert Sebastian;Prospect Advisors LLC;Portfolio Manager and Founder

I have a couple of questions -- maybe a little bit more than a couple. But first, were there any sales from the securities portfolio?

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

No, we didn't sell anything in the securities portfolio. We also, as I said before, did not purchase anything except for the dividend reinvestment. And we've been keeping our portfolio at the 9.5%. As I said before, we're not going to go over 15%. But as we grow our assets in our core business with our acquisitions, that percentage should decrease.

Albert Sebastian;Prospect Advisors LLC;Portfolio Manager and Founder

Okay. I guess what I'm trying to understand is, historically, you've issued a lot of stock. I mean the shares outstanding have gone up quite a bit. I know you probably feel that your securities portfolio is undervalued, but so is your stock. I guess why would you issue so much stock in the quarter and not sell anything out of your securities portfolio? Surely, there must be something in your securities portfolio that you feel your stock represents better value than one of the positions.

Eugene W. Landy

Founder & Chairman of the Board

Well, let me try to help you with that question. One of the great developments has just been in the last few days, though it's a continuation of something that we're seeing for a considerable period of time. We issued 4 years ago $100 million of 8% preferred. We're putting this company in a position that in October of next year 2020, we intend to call that preferred and we're budgeting $3 million, $4 million, $5 million in increased earnings through the simple expedience of paying down a high-cost preferred. By the way, when we issued the preferred at 8%, we used to joke that we issued a preferred at 8%, bought parks at 6% and 7% cap and we're going to make a lot of money. Well, we certainly did. The $100 million we issued, we used to buy $200 million, $300 million in parks that are much more valuable today than they were when we issued the capital. So the preferred -- having $110 million, about $108 million today of liquidity, gives me utmost confidence than in October of next year, we're going to call the $100 million -- well, it's $95 million, I want to be exact.

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

$95 million.

Eugene W. Landy
Founder & Chairman of the Board

$95 million of 8% preferred and replace it hopefully with 2.5%, 3% debt or even just sell some securities and pay it off. So the trend towards lower interest rates helps us, and this one capital move helps us. And on top of that, the low interest rate climate, we have hundreds of millions of debt we're going to roll over. We'll increase the debt and be able to borrow. Anna, what did you last borrow at, what interest rate?

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

3.41%.

Eugene W. Landy
Founder & Chairman of the Board

3.41%. So we've kept the company liquid. We realized that the securities portfolio has gone down in value and that we've seen a reduction in dividend. But it still gives us a lot of liquidity and confidence to realize our future plan.

Albert Sebastian;Prospect Advisors LLC;Portfolio Manager and Founder

When I take a look at your diluted shares outstanding, it was 39.9 million at the end of the second quarter or I guess maybe during the quarter. But anyway, looking at it at the end of 2014, it was 22.5 million. So there's quite an increase in the shares outstanding. It actually works out, if I did the math correctly, 13 -- up on the annual growth rate of 13.6%.

Eugene W. Landy
Founder & Chairman of the Board

I don't want to interrupt here, but I don't think your numbers are right. We've been issuing about $3 million worth of stock a month, $36 million a year, with a dividend reinvestment of $40 million, and we've been investing $100 million, $150 million a year. We continue to issue equity though. We make a decision each month, some things change. Yes. The company changes every time and we're growing the company. We're putting in 800 rentals a year. They used to cost us $32 million. I think now with the 800, it would be closer to $40 million a year. And we've done very well in acquiring parks and they've been very profitable.

So the situation is that you have to issue some equity. We sold in 4 days $100 million in preferred. We did it because everybody had confidence in our strong financial statement. So we do recognize that the net asset value of our stock is higher than the company's current market price. And to that extent, it may be dilutive to book value. We don't think it's dilutive of earnings. Go ahead, Anna.

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

No, I was also going to add that over the last 5 years, we've also had a total return of 80%. So yes, we did issue shares, but those shares were used to grow the company and also to give a return, a bigger return to our shareholders.

Albert Sebastian;Prospect Advisors LLC;Portfolio Manager and Founder

Okay. Can I just ask one more question?

Samuel A. Landy
President, CEO & Director

Sure.

Eugene W. Landy
Founder & Chairman of the Board

Go ahead.

Albert Sebastian;Prospect Advisors LLC;Portfolio Manager and Founder

Yes. I was looking at your peers, I was looking at Sun Communities and I was looking at Equity LifeStyle Properties. And over the last 2 years, Sun Communities had price return. I'm pretty sure I got this right, and I'll take a look at my numbers on shares outstanding. But Sun Communities is up 59%. Equity LifeStyle Properties is up 50% over the last 2 years on a price basis. UMH is down 18% over the last 2 years. Is there something -- how do you explain that? Is there...

Samuel A. Landy
President, CEO & Director

So yes, good, good. It's a good question. So in the beginning, Sun Communities started with rentals 3 years before UMH, so we need to catch up there, which we are doing. Additionally, liquidity is value. The more shares you have outstanding, the larger your company is, the lower the cap rate you trade at. So that Sun Communities stock and ELS are yielding 3% or less, and we're yielding over 5%. Size alone will -- could potentially double our stock so our yield becomes the same.

Additionally, our business plans are different. They're buying communities that increase their FFO because they could buy at a 4 cap and their cost of funds is a 3 cap, and that's accretive. So these 95% occupied, perfect condition communities that they can acquire are accretive to them because of their low cost of capital. We're doing something different that is actually much more value-add as indicated by the communities we refinanced at 10% per year growth in value. And what that is, is you buy these 60% or 70% occupied communities that takes 3 years to turn around, that actually decrease your FFO the first couple of years you own them, but at the end of a 5-year period, they've increased in value more than 50%. And our returns will actually someday be greater than Sun's and ELS' when we can demonstrate to the market the increased value of these properties and as we get more of the revenue growth, and communities can't operate efficiently until they're over 80% occupied. So when you hit that point and the revenue growth becomes new earnings and we show that earnings growth, people are going to notice that UMH's trajectory of increased earnings and FFO exceeds the other companies and our stock will do better.

And to go a step further along that, we were well on the way to doing that and this quarter only had 2 setbacks that stopped people from seeing exactly what I'm saying. And the one is $2 million less in dividend income from the REIT securities portfolio, and the second is issuing the $100 million in preferred stock, which costs money today and doesn't earn money till tomorrow. But for those 2 things, you would see that everything I'm saying is already true. And the stock could react, it could react to it today anyhow or it could react later.

Operator

Our next question today comes from Merrill Ross of Compass Point.

Merrill Hadady Ross
Compass Point Research & Trading, LLC, Research Division

My question is in the absence of an acquisition pipeline, is there any way to invest in community stabilization with greater efficiency and shorten the time line to stabilization? I realize that the market doesn't want you to spend money and then earn a return over 3 years. They want you to spend money and earn a return now, and you just answered that question.

I'm just wondering if there's -- because there is so much better value creation in stabilizing those communities, I'm wondering if there's any way to make it more efficient.

Samuel A. Landy
President, CEO & Director

Well, we're working on efficiency. Daniel, talk about what we're doing for efficiency.

Daniel Landy
Assistant to the President

Yes. So for efficiency, to get a better handle on expenses, we're selling meters on even more units. We have 4,500 total units that are not submetered and are on public water. We're going to do 1,200 units this year. On top of that, we're doing a lot of stuff with software. So we're going to have real-time updates every day of what the master reader is at each community is paying for how much water is flowing out and the software immediately alerts us if it exceeds a certain amount per unit, it alerts the manager of that corporate and the regional. So the faster we get on top of leaks and high usage, the faster we fix it and the faster we control that expense.

Additionally, we're going to automate more tasks at the community offices for paperwork, getting people to pay online more. This will reduce the need for extra help at the community office, which should help control some of the growth in salaries and stuff like that.

And the final item is also in software. We're going to have even more detailed analysis in basically certain items we purchase such as tools, make sure that no communities are ordering an excessive amount of tools as well as have a better understanding of what we buy. And essentially, when we buy, we're going to buy at the most cost-effective way, such in a way we might have data on, for example, something like how many hammers we order or something like that and combine the purchasing power and effectively purchase these cheaper in bulk.

Samuel A. Landy
President, CEO & Director

And I'd point out -- go ahead, yes.

Merrill Hadady Ross
Compass Point Research & Trading, LLC, Research Division

Gene mentioned the regional sales centers. Is that one that you referred to, is that a regional center at this point?

Samuel A. Landy
President, CEO & Director

Yes. Brett, talk about the one that's doing so well.

Brett Taft
Vice President

Yes. So we have 2 regional sales centers. We have the one in Belle Vernon, Pennsylvania. They have a pipeline of about 12 homes right now, so that's very encouraging. And then we have our Anderson, Indiana sales center, which is also a regional sales center. They've done about $430,000 in sales this year, but they have a 5-home pipeline with about $700,000 in sales in it. They also have another 4 or 5 communities that will do -- or 4 or 5 homes sold within the community. So we do expect those to continue to grow as we're able to build our pipeline up at those locations.

Merrill Hadady Ross
Compass Point Research & Trading, LLC, Research Division

Are you going to add more?

Samuel A. Landy
President, CEO & Director

Yes. Yes, there's other communities, Kinnebrook, Heather Highlands, Sunny Acres. So we have additional communities to work on sales centers.

Operator

And the next question today comes from Craig Kucera of B. Riley FBR.

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

I wanted to talk about your selling expenses first on the manufactured homes. Can you give us some color on sort of how we should think of the fixed versus variable cost there going forward?

Samuel A. Landy
President, CEO & Director

Yes. So the fixed cost, you've got your cost of sales of what's the cost of the home and the homes are marked up 30%. You have your variable cost, which I would consider your marketing, your commissions, you have to heat these homes, you have to pay taxes on them.

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

Right. A lot of our costs in selling expense is fixed because it's the marketing expense, which we have the marketing budget; it's the employees, the salaries of these employees. So all that goes into our selling expense. So a lot of that is pretty much fixed.

Eugene W. Landy
Founder & Chairman of the Board

I want to point out what a wonderful team we have. We had less than a week's notice of the opportunity of displaying a home on the Washington Mall. And within that week, we purchased a home, moved it to the mall, set it up, had a wonderful reaction to the display both from our representatives and the public. And then of course, you have to tear the house down and move it back to where we're going to ultimately sell it. In terms of dollars, it was an expensive thing. In terms of public relations and helping the industry and helping us on our long-term plan, you can't -- you have to say that, that's the best public relations program we've ever had. And of course, we have it on videotape, and we hope that eventually you'll go to our website and see the display and see the Secretary of Housing give a rousing speech in favor of manufactured housing. So it was certainly money more than well spent.

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

Okay. Let me ask you a little differently. I guess a couple of quarters ago, you sold about $4.6 million in homes and I think your selling expenses were about $0.02. In this quarter, they were $0.03 a share. I guess should we think that $1.3 million is sort of a decent amount of selling expenses, if you continue you'd sell about $6 million a quarter? Or is it going to vary if you accelerate sales even more because of marketing spend? Or how should we think about that?

Samuel A. Landy
President, CEO & Director

So there are increased expenses because our confidence is high and we're working on growing the sales so that -- take the Port Royal sales office, there's one extra new employee with no new closings yet. And that's going to be the situation. As we see a market that's working well, we're going to be employing additional people, bringing in additional homes, doing additional setup work. But by the end of 12 months, the object of this is that it adds profitable revenue. So quarter-by-quarter, especially at this time of year, the expense may grow as a higher percentage than the income. But we expect the end result is going to be the income grows more.

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

Okay. Going back to last quarter, I think you were talking about a pipeline of about 1,200 units at $45 million. You've closed, I think, $31 million here early in July and have another asset. Did you pick up another community quickly? And as we look to what's supposed to close in the next few weeks, what's the dollar value of that community?

Brett Taft
Vice President

Yes. So I'm blanking on exactly what it was that we -- what we reported in the last quarter. But we did get 2 additional properties under contract since that call. So I believe that's what we're talking about there. Those were 2 communities, 285 sites in the Pittsburgh market for $11.65 million. The one property under contract now is about a $25 million deal. There is a $12 million loan being assumed, so we'll put out another $13 million in equity to get that deal done. That's in Erie, Michigan, very close to our Perrysburg property. It's a very high-end community, and we're excited to add it to our portfolio.

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

And I know the occupancy on the acquisitions that you closed already this quarter was low even for you guys on average. But what sort of the going-in kind of year 1 cap rate on the acquisitions you're expecting to close here this quarter?

Brett Taft
Vice President

So the going-in cap rate on the deals that we closed this quarter was about 6.5%. That being said, we will be increasing expenses to turn these communities around. I just want to point out a few things about our previous acquisition. So in 2017, we acquired 2,000 sites. Those acquisitions, we've improved occupancy by 230 units since the time of acquisition, 56 of those units being this year. So those properties have performed very well and they're now operating at a 48% expense ratio and we were earning somewhere around 7% there. So that's very good.

In 2018, last year's acquisitions, we've actually lost occupancy by 24 units. This year, we've improved by 14 units. Obviously, we're still completing the turnaround work at these properties. Our operating expense ratio is 64% there. So as we're able to bring that operating expense ratio to 50%, we'll see an additional $425,000 to the bottom line at the current revenue level. Obviously, we'll also be growing revenue. So that's kind of the picture of what should happen with these newer acquisitions coming up here.

Samuel A. Landy
President, CEO & Director

And most importantly, we're buying them for $28,000 a site. And when you get up to the 90% occupancy and do the improvements, replacement cost is $70,000 a site and there's really no reason the value won't be $70,000 a site.

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

Okay. One more for me. On the expansions that you're delivering this year, I think you mentioned maybe 170 this year and almost 640 next year. How should we think about what the incremental cost is on a per-site basis just from a use of capital and capital needs perspective?

Samuel A. Landy
President, CEO & Director

So we expect to invest $70,000 per site in the construction of the site. And then first phases do negatively impact operating income because you're spending money on marketing, you have a person in the office, you're doing all these things and you have to fill the sites. But the purpose of it is you're hoping to make $30,000 per sale in the expansions and collect the lot rent. So it takes time.

But Fairview Manor, Highland Estates, those are places we made significant money building sites, and we expect that, that's what's going to occur with the expansions we're building today.

Operator

And ladies and gentlemen, this concludes our question-and-answer session. I'd like to turn the conference back over to the management team for any final 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 look forward to reporting back to you after our third quarter. Thank you.

Operator
And thank you, sir. Today's conference has now concluded, and we thank you all for attending today's presentation. You may now disconnect your lines, and have a wonderful day.