S&P Global
Market Intelligence

UMH Properties, Inc. NYSE:UMH

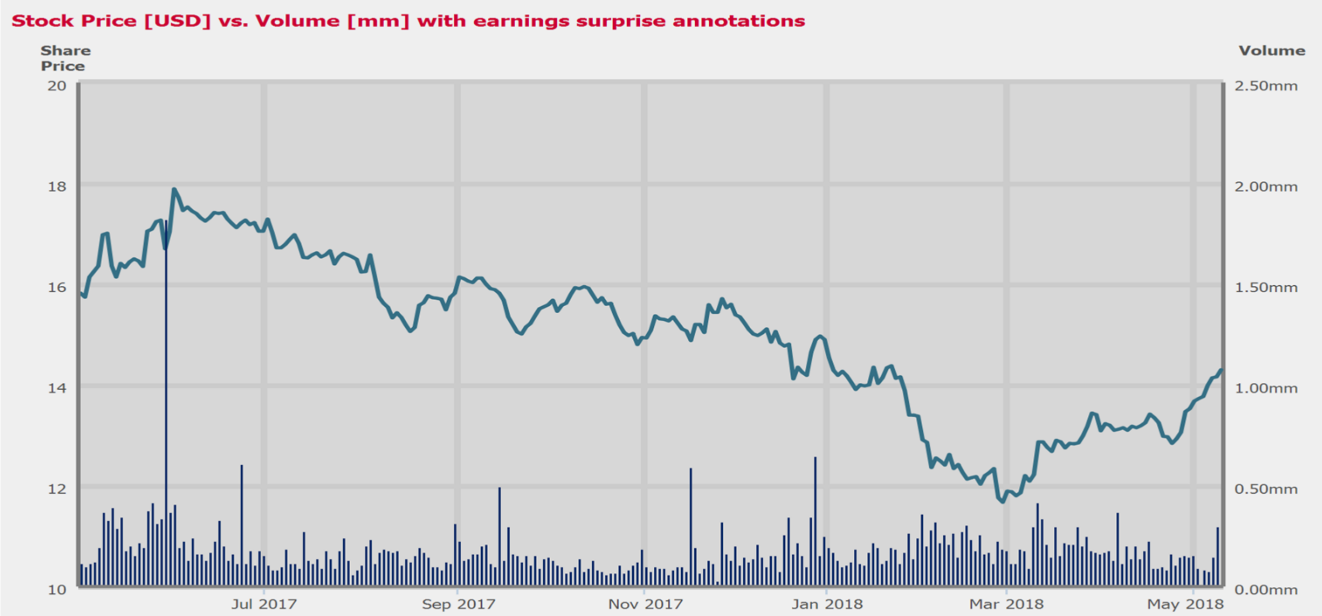
FQ2 2018 Earnings Call Transcripts

Wednesday, August 08, 2018 2:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2018-			-FQ3 2018-	-FY 2018-	-FY 2019-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS (GAAP)	(0.03)	0.40	NM	(0.03)	(0.83)	(0.02)
Revenue (mm)	31.95	32.10	▲0.47	32.56	128.11	145.84

Currency: USD
Consensus as of May-11-2018 11:36 AM GMT



- EPS (GAAP) -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2017	(0.02)	(0.01)	NM
FQ3 2017	(0.03)	(0.15)	NM
FQ4 2017	(0.03)	(0.03)	NM
FQ1 2018	(0.04)	(0.76)	NM

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Call Participants

EXECUTIVES

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

Brett Taft
Vice 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

Omotayo Tejamude Okusanya
Jefferies LLC, Research Division

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

Presentation

Operator

Good morning, and welcome to UMH Properties, Inc. Second Quarter 2018 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 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 second quarter 2018 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. Good morning, everyone, and thank you for joining us. We're pleased to report our second quarter results. Our business plan of acquiring value-add communities and turning them around has worked exceptionally well. Not only have we improved our operating results, but we have also enhanced the quality and reputation of our communities.

Most of the physical work has been completed at these locations, and we are now seeing the benefits of our strategy. Year-over-year, 58 communities have increased revenue by 5% or more, of which 34 communities have increased revenue by 10% or more, and 20 communities have increased revenue by 15% or more. We're very proud of the work that our team has done in integrating, modernizing, expanding and upgrading each community. The value of our portfolio continues to increase substantially.

During the quarter, we closed on the acquisition of 2 all-age communities located in Indiana, for a total purchase price of $20.5 million. These communities contain 669 developed homesites, of which 91% are currently occupied. These communities are high-quality stabilized assets with additional land for expansion and below-market rents. This acquisition closed on May 30, and therefore, the positive impact on our earnings is not fully represented in this quarter's results.

Our acquisition pipeline, currently consists of 6 properties containing 2,100 sites, with a blended occupancy rate of 66% for a total of $81.5 million. We are satisfied with our ability to source deals in a competitive acquisition environment. We continue to evaluate all potential opportunities and hope to further grow our acquisition pipeline.

Rental and related income for the quarter was $28.2 million as compared to $25.3 million a year ago, representing an increase of 11.6%. Community NOI for the quarter was $15.5 million as compared to $13.4 million a year ago, representing an increase of 15.6%. Our community operating expense ratio continues to improve and was 45% for the current quarter compared to 46.9% a year ago.

Our overall occupancy is now 82.5%, representing an increase of 130 basis points year-over-year. Our overall occupancy rate continues to be weighed down by our acquisitions. As we have successfully done with our prior acquisitions, we will fill our acquired vacant sites and consider them to have embedded growth potential for our portfolio. Same property results demonstrate the success of our business plan. Same property occupancy increased to 83.3% at quarter end, representing a 100 basis point improvement year-over-year. Same-property revenue increased 6.8%, while expenses increased 3.8%, resulting in an increase in same property NOI of 9.2%. Included in our same property pool for 2018 are our acquisitions from 2016, which were acquired at a weighted average occupancy rate of 74%. Our value-add acquisitions generally take 2 to 3 years to turn around, but when they do, occupancy levels rise quickly, expense ratios decrease and the communities substantially increase in value. These communities will continue to benefit from our business plan, and we expect to maintain or exceed these superior same-store results.

Demand for rental homes continues to be strong. During the quarter, we added 224 rental homes to our communities, bringing our total to 389 for the year. We expect to meet our annual goal of adding 800 new rental homes to our portfolio. Our rental home portfolio now contains 5,996 homes with an occupancy rate of 94%. Our average monthly home rental rate is $737, which is an increase of 2.9% over the prior year period. The most efficient way to improve community operations at newly acquired communities is by utilizing the rental home program. New rental units quickly improve the aesthetics of the community while also exposing new residents to the product. These rental customers are more likely to purchase manufactured homes in the future.

Sales continue to improve. Sales for the quarter were $3.9 million, representing an increase of 9.6% over the same period last year. Sales for the year are $6.4 million, representing an increase of 17.3% over the same period last year. Our sales volume continues to grow, driving our confidence in the ability of our sales operation to return to profitability. Year-to-date, we have sold 124 homes at an average price of $52,000 per home compared to 108 homes at an average price of $50,000 per home last year.

This quarter, we have completed the physical work of separately metering utilities at 9 communities. Next quarter, we will complete changing the lease structures of these communities, so residents will directly pay their utilities. This will further improve our operating margins at these communities.

On the expansion front, we anticipate building an additional 305 sites this year. We are obtaining bids for several of these projects, with construction set to begin shortly. Our expansions are primarily located in Tennessee, which is one of our best performing markets for both sales and rentals. We will be building 261 sites at 4 separate locations in Tennessee. We also plan to develop 19 additional sites in Indiana and 25 additional sites in Ohio. There are substantial barriers to entry for our property type. Having the ability to expand existing communities is a very valuable and somewhat hidden asset for us.

Our marketing program has been very successful in driving traffic to multiple locations, largely due to our communities' proximity the to each other. We're working on leveraging our footprint to grow our sales operation, both in community and on private land exponentially. I am happy to report that all of our regions are reporting increased demand, occupancy and NOI growth. Our best-performing market is Indiana, which increased occupancy by 450 basis points year-over-year. Our communities are benefiting from improving demographics. Regulatory and tax relief paired with rising oil and gas prices have resulted in job creation and rising wages. The economic expansion in the Marcellus and Utica Shale region continues to progress. The United States is now one of the largest producers of oil and gas in the world, with a target to become a net exporter in the near future. As more pipelines come on line and the energy can be transported to energy plants, cracker plants and export terminals, we expect that our land holdings in these regions will significantly increase in value. We have recently seen an uptick in demand for the leasing of our mineral rights.

Our portfolio of manufactured home communities is now comprised of 114 communities with approximately 20,600 sites. We have built a first-class portfolio by acquiring underperforming assets and utilizing our platform to improve the quality of life for our residents and create a long-lasting value for our shareholders. Our timing could not have been better. We were able to build this portfolio well in advance of the increased competition that has resulted from private equity and institutional investors discovering our asset class. This has recently made the acquisition market more challenging, but it has also substantially increased the value of our portfolio.

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 $6.2 million or $0.16 per diluted share for the second quarter of 2018 compared to $6.5 million or $0.20 per diluted share for the prior year period. During the recent quarter, core FFO included a non-recurring one-time payroll expenditure of $525,000. Also, during the prior year period, core FFO included realized gains on the sale of marketable securities of $1 million. Normalized FFO, which excludes these non-recurring items, was $6.7 million or $0.18 per diluted share for the second quarter of 2018 compared to $5.5 million or $0.17 per diluted share for the prior year period, representing an increase of 5.9% on a per share basis.

During the first quarter, we issued 2 million shares of a new 6.375% Series D Cumulative Redeemable Preferred Stock for net proceeds after deducting the underwriting discount and other estimated offering expenses of approximately $48 million. We anticipate continued per share earnings accretion once this capital is fully deployed.

Rental and related income for the quarter was $28.2 million compared to $25.3 million a year ago, representing an increase of 11.6% primarily due to community acquisitions, the addition of rental homes, the growth in occupancy and rent increases to our residents. We have been raising rental rates by approximately 3% to 5% at most communities. Our same property weighted average monthly site rent is currently $444, representing an increase of 3.5% from a year ago.

Due to the adoption of a new accounting pronouncement, effective January 1, 2018, our current earnings include the change in the fair value of our marketable securities. These changes were previously a component of other comprehensive income on our balance sheet. By now running these changes through our income statement, this new accounting standard causes volatility to our quarterly results. Therefore, we also included metrics that exclude these unrealized quarterly fluctuations. At the end of the second quarter, the company had a securities portfolio of $138 million with a net unrealized gain of $2.2 million. This represents a $16.6 million total increase in fair value for the quarter. We include this increase in our FFO but exclude it from core and normalized FFO, since it is unrealized. Our dividend income increased 37.8% from $1.8 million in the second quarter of 2017 to $2.5 million this quarter.

As we turn to our capital structure, at quarter end, we had approximately $386 million in debt, of which, $302 million was community level fixed-rate mortgage debt at a weighted average interest rate of 4.2%, and $84 million were loans payable at a weighted average interest rate of 3.7%. 80% of our total debt is fixed rate. The weighted average interest rate on our total debt is 4.1% at quarter-end as compared to 4.2% a year ago. The weighted average maturity on our mortgage debt, was 6.4 years at quarter-end compared to 6.7 years a year ago.

At quarter-end, UMH had a total of $289 million in perpetual preferred equity. Our preferred stock, combined with an equity market capitalization of $566 million and our $386 million in debt, results in a total market capitalization of approximately $1.2 billion at quarter end, representing a 10% increase year-over-year.

From a credit standpoint, our net debt to total market capitalization was 30%. Our net debt less securities to total market capitalization was 19%. Our fixed charge coverage was 1.7x. Our net debt to adjusted EBITDA was 6.1x, and our net debt less securities to adjusted EBITDA was 3.9x.

From a liquidity standpoint, we ended the quarter with $15 million in cash and cash equivalents; $138 million in our securities portfolio, encumbered by $27 million in margin loans, and $15 million available on our credit facility. We also had $23 million available on our revolving lines of credit for the financing of home sales and the purchase of inventory. Subsequent to quarter-end, we obtained a $13 million mortgage on our recent acquisition. This mortgage is at a fixed rate of 4.27% with a 10-year maturity and principal repayments based on a 30-year amortization schedule.

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. UMH is well on its way to an excellent year. We have delivered solid financial results, increasing our rental income by 12% and our community NOI by 16% year-over-year. Since 2010, we have tripled the size of our portfolio from 6,800 developed homesites to 20,600 developed homesites today.

Our recently acquired communities are performing well, and we have a strong pipeline of future acquisitions. The success of our rental home program has helped to increase our occupancy. We are on target to add an additional 800 rental homes this year. Sales have increased 10% this quarter and 17% year-to-date.

The U.S. economy is in excellent shape, with GDP growth for the second quarter of this year at an annualized rate of 4.1%. This is the strongest performance in 4 years. The unemployment rate is at a near record low of 4%. Wages and salaries were up 2.8% in the 12 months through June, the largest gain since the third quarter of 2008.

Housing demand appears to be increasing nationwide in all areas. Home prices are up over 6% on a national level. Demand for our homes also continues to rise. Factories are reporting longer lead times. It now takes 6 to 8 weeks to buy and receive a home from the factory to our site. These factors bode well for a healthy U.S. economic outlook. UMH is optimistic as to the future prospects of housing, affordable housing and manufactured homes.
We will now be happy to take questions.

Question and Answer

Operator

[Operator Instructions] And the first question will come from Rob Stevenson of Janney.

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

Sam, how much -- is the increase in occupancy 100% due to the rental units? Or are you still seeing some organic moving of the typical pre-rental business occupancy?

Samuel A. Landy
President, CEO & Director

There is a very small number of outside dealer sales coming into the communities. We've seen it in Western New York, but it's the first time we've seen it in a long time so that's very encouraging that manufactured home dealers are selling houses, and bringing them into our communities. It's only on a very small scale, but at least it's occurring. And then the other occupancy increase comes from our own sales as well as the rental units.

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

Okay. And then, in terms of the rental units, is there any markets or properties, where that there is some sort of lag either in terms of you being able to get the rental -- there is excess demand and that if you had 5 more rental units you could lease them? But getting the -- as you talked about getting delivery of the units on to your site and setup and everything is a drag? Or is it basically what you guys are doing is what the demand is in your assets?

Samuel A. Landy
President, CEO & Director

Predominantly what we do is with the demand, but at the same time, I say that most communities have a waiting list, and they're waiting for us to set up the next batch of rental units, which whether it was bad weather earlier in the year, the longer period of time it takes the factory, the lack of setup crews, but we're on target to do 800 units, and there is certainly the possibility we could go a little faster, because there are waiting lists.

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

Okay. And then, in addition, to the stuff that you acquired during the quarter, you talked about in the release, the $81.5 million pipeline, what's the expectations in terms of closing on that? Is that all likely to be -- if it closes, is going to be in '18 or is some of that likely to stretch into '19?

Samuel A. Landy
President, CEO & Director

And Brett will answer that. Go on.

Brett Taft
Vice President

Yes. So some of it's definitely going to stretch into '19. Assuming all goes as planned in Q4, we should close about $33 million, and the first half of next year will be the remaining $48.5 million.

Operator

[Operator Instructions] The next question will be from Craig Kucera of B. Riley FBR.

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

Wanted to circle to the payroll expense, what was that onetime payroll expense affiliated with?

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

Craig, this is Anna. That was a bonus that Sam and I received. It was -- I'll call it a lifetime achievement bonus, but that was a one-time payroll expense for that quarter.

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

Okay. Got it. I wanted to go further into operating expenses. You go back a couple of quarters, they were low double digits, and it really improved the last couple of quarters. Were there any components that were negative or even flat in the quarter?

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

I think, in the -- for the most part, it was operating the way we expected to operate. Of course in Q1, we had the expenses of the winter, which increased our utilities, but -- and in Q2, we did have an increase in water and sewer, but that was expected, water and sewer always goes up especially with the municipalities.

Brett Taft
Vice President

Yes. I'll just add that the acquisitions acquired 2 and 3 years ago, we've completed most of the work, so a lot of those one-time expenses are no longer happening.

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

Got it so just more of a normalization. And I feel like late last year, you had a pretty healthy increase in some of your property taxes. Have you had any success in maybe trying to fight back against those this year?

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

We have had some success. I am not going to say, it's a lot of success, because again, with the municipalities what happens is when you purchase -- when you acquire a community, they really reassess your -- they really take a good look at your taxes and reassess us, but we've had some movement on that.

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

Okay. Looks like your average sales price on homes were up quite nicely, maybe up 18% from the first quarter and 10% from last year and your margins were better than we were looking for. Was that a mix issue, or are you able to push pricing higher this quarter?

Samuel A. Landy
President, CEO & Director

It's a combination of everything. Sales are definitely improving and we're doing more of the 55- and-older cash sales, which are -- those are higher end homes closer to $100,000. And we just see sales continuing to progress. And everybody out there, our activity and the number of people coming on our website, visiting the communities, all of that is higher than ever.

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

Okay. Great. And just going back to the commentary on rolling out some differential water metering? Can you tell us again what you're expecting to do this next quarter, and -- or in the back half of the year and kind of what your expectations are for that? And sort of what you see is the economic impact as you roll that program out to more communities?

Samuel A. Landy
President, CEO & Director

Sure. It'll take more time, but what happens is, once you separately meter the water and sewer, residents reduce their consumption 20% to 30%. Once they're directly paying that bill, it decreases the water and sewer expense. We separately bill them so it's actually their savings, but we see that as a benefit to the community. We see reducing our residents' housing cost as our job, and we're trying to make manufactured homes and manufactured home communities more affordable. Besides working on the utility cost, which is one area where we can reduce residents' expenses. We also believe that financing homes in UMH communities should be a very successful venture for whoever the lender is. Our communities are going to go up in value, the homes in the communities are going to go up in value, so we believe that the residents of UMH communities are entitled to lower interest rates on their home loans whether it's a new home sale or a used home sale. And so for the next year, besides working to reduce their utility costs, we're going to try to reduce the interest expenditure that our residents have.

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

Got it. And one more for me. Just going to the acquisition pipeline, it seems to be taking a little bit longer than to close than maybe it has in prior years, and I guess are there any special considerations for why this is taking longer than maybe it has in the past, or is it just -- these are deals that need more diligence?

Brett Taft
Vice President

Loan assumptions are predominantly the issue. The -- sometimes, they take 3 months, sometimes they take 6 months. We are moving forward on them. We do expect Q4 to close on about $33 million and Q2 '19 or first half of '19, $48.5 million. The deal we recently closed, we did place some mortgage on it. Subsequent, we were hoping to do it at the same time, and that slightly delayed the acquisition.

Operator

The next question will be from Tayo Okusanya of Jefferies.

Omotayo Tejamude Okusanya
Jefferies LLC, Research Division

I just wanted to ask a quick question about the REIT securities portfolio, kind of real big change there in the quarter. Just curious was that just a provision that bounced back? Are you kind of thinking about what you invested in differently within the portfolio?

Eugene W. Landy
Founder & Chairman of the Board

Well, this is Gene Landy, Chairman. The securities portfolio, we basically are long-term investors, and so we -- the market is fluctuating greatly. REIT stocks have good quarters, bad quarters. We view investing in REIT securities the same as investing in real estate. We take a long-term view of it, and we follow all the companies we invest in closely. And the United States is doing well, and real estate in the United States is doing well. So, we plan to continue the portfolio, and we monitor it, but we think in the long run, it'll do very, very well.

Omotayo Tejamude Okusanya
Jefferies LLC, Research Division

Right. But there was no real change in strategy that kind of created the reversal during the quarter, it's kind of still?

Eugene W. Landy
Founder & Chairman of the Board

We have a lot of strategies and we've had them for many years, and they've worked out very well, but it's very hard to cover that on our earnings call. But we follow various industries in the REIT field. We have various leaders in the REIT field that we think highly of, and there is a message to every portfolio stock we have. But it doesn't change quarter-to-quarter or even year-to-year, and we continue the holdings that we have, and it's been a long-term winner, and we think it will continue to be.

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

And we have in our supplement, our dividend income and our realized gains over the last -- since 2010, and you can see how well we've done there. And our methodology has remained relatively consistent.

Operator

[Operator Instructions] And at this time, we will conclude the question-and-answer session. I would like to hand the conference back over to Samuel Landy for any closing remarks.

Samuel A. Landy
President, CEO & Director

Thank you, operator. On a sad note, I would like to take a moment to acknowledge the passing of one of our strongest supporters, Michael Boulegeris. Michael was an inspiration to all of us. He will be greatly missed. Our thoughts are with his family during this difficult time.

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
Thank you, sir. 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 10121263. Thank you, and please disconnect your lines.