S&P Global
Market Intelligence

UMH Properties, Inc. NYSE:UMH

FQ3 2018 Earnings Call Transcripts

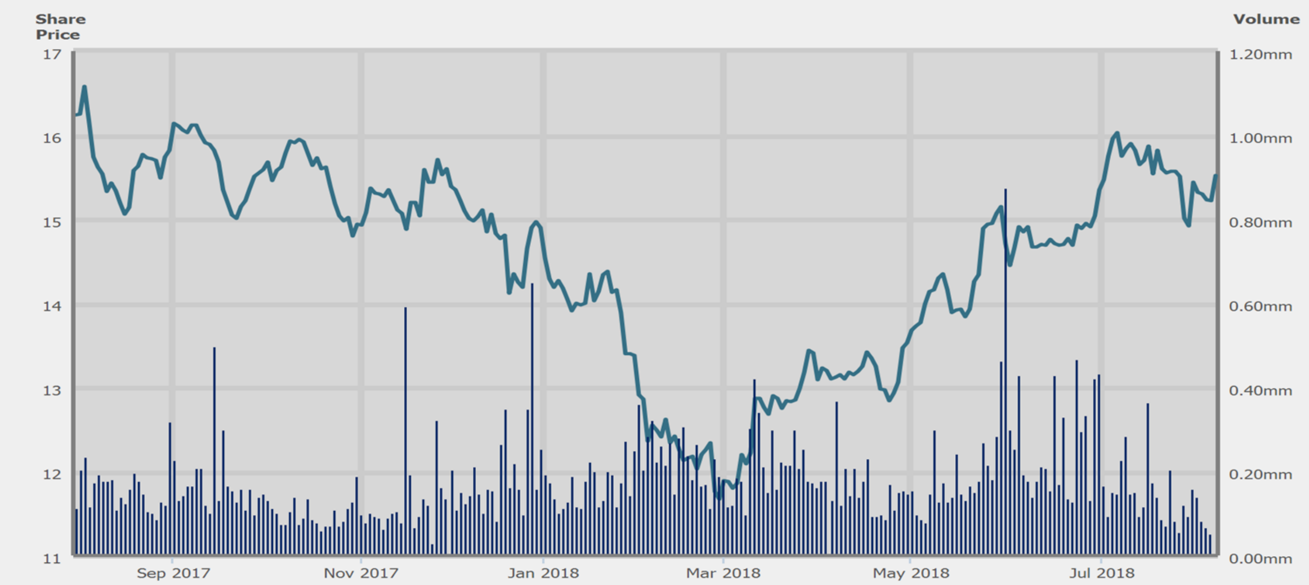
Friday, November 02, 2018 2:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2018-			-FQ4 2018-	-FY 2018-	-FY 2019-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS (GAAP)	(0.02)	(0.31)	NM	(0.02)	(0.39)	(0.03)
Revenue (mm)	32.19	33.45	▲3.91	33.30	127.38	148.22

Currency: USD
Consensus as of Sep-17-2018 12:32 PM GMT

Stock Price [USD] vs. Volume [mm] with earnings surprise annotations



- EPS (GAAP) -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2017	(0.03)	(0.15)	NM
FQ4 2017	(0.03)	(0.03)	NM
FQ1 2018	(0.04)	(0.76)	NM
FQ2 2018	(0.03)	0.40	NM

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Call Participants

EXECUTIVES

Anna T. Chew
VP, CFO, Chief Accounting Officer, Treasurer & 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

Brendan Wagner

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

Merrill Ross
Boenning and Scattergood, Inc., Research Division

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

Presentation

Operator

Good morning, and welcome to UMH Properties' Third 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 third quarter supplemental information presentation. This supplemental information presentation, along with the 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 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 third 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 are pleased to report that we are making progress in all aspects of our business. Our ability to identify and acquire value-add communities in markets with growing economies and improving demographics has resulted in exceptional income and earnings growth. Low unemployment rates and rising wages have created additional demand for our product.

When we acquire a community, there is a 3-year turnaround period during which we complete deferred maintenance and capital improvement projects. As the improvements are completed, the communities become more desirable places to live. The improving economic climate, paired with the completion of improvements at our turnaround communities, is rapidly improving our community operating numbers, thus positively benefiting our earnings while generating significant long-term value for our shareholders.

Our portfolio currently consists of 115 communities containing approximately 20,700 homesites with an overall occupancy rate of 82.6%. We currently have approximately 3,600 vacant sites, most of which were acquired. This vacancy factor provides us with a significant runway to improve upon our already successful business plan. The most efficient way to fill the vacant sites and realize the value is to utilize the rental home program. We currently have 6,215 rentals, of which 93.3% are occupied. Demand for rentals is very strong in all our markets. We are on track to meet our annual goal of installing and renting 800 new homes this year. So far this year, we have added 608 rental homes to our portfolio. Our average monthly home rent is now $737, which is an increase of 2.5% over the prior year period.

Sales demand is as strong as it has been since prior to the recession. Sales for the quarter were $4.7 million as compared to $2.8 million last year, representing an increase of 67%. Year-to-date sales have increased 34%, and we have already surpassed our total 2017 sales. For the 9 months this year, we have sold 204 homes at an average price of $54,000 as compared to 169 at an average price of $49,000 in the prior year period. We are encouraged by this dramatic increase in sales and believe this portion of our business could be a major profit center for years to come.

As good as sales have been, we expect them to continue to increase at a healthy rate. The conventional housing market is slowing down because of high prices and rising interest rates. As the cost of conventional housing increases, our product becomes more advantageous to the consumer, driving increased sales and better margins. Manufactured housing has been recognized by legislators on both sides of the aisle as a potential solution to the coming affordable housing crisis.

We have broken ground on several of our expansions and anticipate completing 305 sites this year. 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. We are currently working to obtain approvals to build approximately 500 sites in 2019.

Moving on to our quarterly financial results. Normalized FFO was $0.19 per diluted share as compared to $0.14 per diluted share last year, representing an increase of 36%. Our core FFO and normalized FFO are projected to cover our $0.72 dividend. As we execute on our business plan, we expect our earnings per share to increase further.

Rental and related income for the quarter was $28.7 million as compared to $25.9 million for the same period last year, representing an increase of 11%. Community NOI for the quarter was $15.4 million as compared to $13.5 million for the same period last year, representing an increase of 14%. Our community operating expense ratio was 46.3% for the current quarter as compared to 47.6% last year.

Our same property results continue to demonstrate the success of our business plan. Same property rental and related income for the quarter was $26 million as compared to $24.5 million for the same quarter last year, representing an increase of 6%. Same property community NOI for the quarter was $14.6 million as compared to $13.5 million for the same quarter last year, representing an increase of 8%.

Our same property expense ratio improved to 43.7% as compared to 44.7% a year ago. Our same property occupancy rate for the quarter is 83.2% as compared to 82.8% for the same quarter last year. Our same property site rent is $446, which is an increase of 3.5% over last year. We expect our same property results to strengthen further as we continue to upgrade our recent acquisitions.

During the quarter, we closed on the acquisition of one all-age community located in Indiana for a total purchase price of $3.5 million. This community contains 134 developed homesites, of which 60% are currently occupied. This community is a high-quality asset developed in the year 2000 with additional land for expansion and below-market rents. Our acquisition pipeline currently consists of 5 properties containing 2,000 sites with a blended occupancy rate of 66% for a total of $78 million. Many private funds are competing for deals, resulting in continued cap rate compression.

Success breeds success. We expect our positive earnings growth to drive our share price higher, reducing our cost of capital. This will make more acquisitions available to us. Our successful community expansions will demonstrate to local governments that UMH has the expertise required to build new communities that will help them solve the affordable housing crisis.

UMH has built a quality portfolio of communities in locations that are experiencing improved economic conditions. Our industry is highly coveted, resulting in increased demand for the limited supply of manufactured home communities. Our top line continues to grow. Our operating platform continues to run more efficiently, resulting in better bottom line growth. Our sales have improved and should continue to improve. We are expanding our communities and have opportunities to acquire communities. Regulatory relief has begun to positively impact our industry. Our capital structure is built to enhance per share results. These factors indicate that we can continue to rapidly improve our earnings and grow the company.

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

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

Thank you, Sam. Core funds from operations or core FFO was $7.1 million or $0.19 per diluted share for the third quarter of 2018 compared to $5.3 million or $0.15 per diluted share for the prior year period.

Normalized FFO, which excludes realized gains on the sale of securities and other nonrecurring items, was $7.1 million or $0.19 per diluted share for the third quarter of 2018 compared to $4.9 million or $0.14 per diluted share for the prior year period. This represents a 36% increase on a per share basis. Normalized FFO was $20.1 million or $0.55 per diluted share for the 9 months compared to $15.4 million or $0.48 per diluted share a year ago, representing an increase of 15% on a per share basis.

Rental and related income for the quarter was $28.7 million compared to $25.9 million a year ago, representing an increase of 11% primarily due to community acquisitions, the addition of rental homes and the growth in occupancy. We have been raising rental rates by approximately 3% to 5% at most communities. As Sam mentioned, our same property weighted average monthly site rent is currently $446, representing an increase of 3.5% from a year ago.

Community NOI increased by 14% for the quarter from $13.5 million in 2017 to $15.4 million in 2018. Community operating expenses for the quarter were 46.3% of rental and related income compared to 47.6% for the prior year period. For the 9 months, our expense ratio was 46% compared to 47.1% for the prior year period. As we noted in the past, our expense ratios will continue to improve as occupancy rates rise and as we upgrade and integrate our acquisitions.

As previously discussed, the adoption of a new accounting pronouncement required us to include the change in the fair value of our marketable securities in our current earnings. At the end of the quarter, the company had a securities portfolio of $131 million with a net unrealized loss of $8.2 million. This represents a $10.5 million net decrease in fair value for the quarter. We include this decrease in our FFO but exclude it from core and normalized FFO since it is unrealized. Our REIT securities portfolio provides us with additional liquidity, diversification and additional income. Our dividend income increased 31% from $2.1 million in the third quarter of 2017 to $2.7 million in the current quarter.

As we turn to our capital structure, as of the end of the quarter, we had approximately $400 million in debt, of which $313 million was community-level, fixed-rate mortgage debt. During the quarter, we obtained a 10-year $13.4 million mortgage at a fixed rate of 4.27%. At quarter-end, the weighted average interest rate on our mortgage debt was 4.2% compared to 4.3% in the prior year period.

The weighted average maturity on our mortgage debt was 6.3 years at quarter-end compared to 6.7 years a year ago. We also have $87 million of loans payable at a weighted average interest rate of 4.1% compared to 2.7% in the prior year period. 80% of our total debt is fixed rate. The weighted average interest rate on our total debt is 4.2% compared to 4.1% in the prior year period.

At quarter-end, UMH had a total of $289 million in perpetual preferred equity. Our preferred stock, combined with an equity market capitalization of $586 million and our $400 million in debt, results in a total market capitalization of approximately $1.3 billion at quarter-end, representing a 13% increase year-over-year.

From a credit standpoint, we continue to be conservatively capitalized with our net debt-to-total market capitalization at 31% and our net debt less securities to total market capitalization at 20%. Additionally, our fixed-charge coverage was 1.7x. Our net debt-to-adjusted EBITDA was 6.3x. And our net debt less securities to adjusted EBITDA was 4.2x.

From a liquidity standpoint, we ended the quarter with $9 million in cash and cash equivalents; $131 million in our securities portfolio, encumbered by $26 million in margin loans; and $15 million available on our credit facility with an additional $75 million potentially available pursuant to an accordion feature. We also had $19 million available on our revolving lines of credit for the financing of home sales and the purchase of inventory.

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 on its way to an excellent 2018. Our income growth is strong. Our overall operating metrics have improved. Sales, which had been experiencing double-digit growth throughout the year, increased an impressive 67% for the quarter. These positive results have enabled us to increase our normalized FFO per share by 36% for the quarter and 15% for the 9 months.

The economy grew at a 3.5% rate in the third quarter and continues to benefit from a strong jobs market, modest wage increases, low unemployment and high consumer confidence, all of which are positive for housing demand. There is still an overall housing shortage. The U.S. is expected to build 1.2 million homes this year, short of the historical average of 1.5 million needed to keep up with population growth. However, recent conventional home sales have shown a decelerating growth rate due to higher home prices and rising mortgage rates. Pressure on conventional home sales highlight the inherent affordability and value of our homes.

Furthermore, legislative initiatives, including the GSE's Duty to Serve program and amendments to the Dodd-Frank Act, are favoring our industry. Legislation has been introduced in the Senate, which could potentially allow us to push back against discriminatory zoning. These initiatives, the demographic outlook and the improving economic backdrop bode well for a bright future for UMH and its shareholders.
We will now be happy to take questions.

Question and Answer

Operator

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

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

Last quarter, when we spoke, you had a similar-sized pipeline adjusting for the $3.5 million acquisition that you completed during the quarter. And it was roughly expected that $33 million would close in the fourth quarter and the remaining over '19. Is that still the case? And how far into '19 are you expecting for that pipeline to close?

Brett Taft
Vice President

Yes, that still is the case. We expect to close the deal here coming up in the next few weeks and then we have two scheduled with closing dates for December. That's actually about $35 million. And then as far as the 2019 closings, it looks like those are going to be Q2, Q3 possibly.

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

Right.

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

Okay. And then in terms of the sales of the homes, how much seasonality do you guys experience in that? I mean, normally the fourth quarter and the first quarter are traditionally poor in your markets for single-family sales, given the weather and everything else or less from a seasonal standpoint. How much seasonality from the home sales do you guys experience these days?

Samuel A. Landy
President, CEO & Director

Well, you're correct. The second quarter is generally the best quarter for sales. But at the same time I'm saying that the situation from 2006 to approximately 3 months ago was as bad as it could be for manufactured home sales. And that has improved dramatically so that sales are coming back to what they were like before 2006. In fact, for October, sales were triple what they were a year ago. So even though there is a seasonality, even though the second quarter is usually the best, sales are stronger than any time since 2016 right now, growing considerably.

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

Okay. And then last one, Anna, has there been any major changes in the composition of the securities portfolio? Or today, it's largely the same sort of composition as what you guys have, I guess, disclosed on the K?

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

Right. This is predominantly the same. There was -- there hasn't been many changes.

Operator

The next question will come from Craig Kucera of B. Riley FBR.

Craig Gerald Kucera

B. Riley FBR, Inc., Research Division

Sam, on your comments regarding sales, I guess, clearly it seems that the new legislation is helping. Can you talk about what you're able to do now versus maybe what you were not able to do before that was enacted?

Samuel A. Landy
President, CEO & Director

Well, the ability to discuss monthly payment, you had persons coming in to buy a $70,000 house and they have $50,000 a year household income. If you can't discuss monthly payment, you can't sell them the house. And now we can again discuss monthly payment. On top of that, because incomes are rising for the blue-collar worker, we're experiencing more and more cash buyers. We do a customer satisfaction report, and we're getting the highest scores possible. So sales are just going phenomenally. And it's almost like we've been out of the sales business from 2008 virtually to date. UMH never imagined that industry shipments could fall as low as 40,000 in 2009. They're back over 100,000 and growing. But UMH is in great locations. And when I look at our states and I look at our state with the highest sales, Pennsylvania, $3,600,000 in sales, the fact is one expansion or one sales center could do that. So we still have plenty of room to grow even though sales were up 60% for the quarter.

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

Got it. And do you have a sense -- you got into renting both the land and the home in the last several years because sales were so weak. I guess, given the size of your company now versus what it was kind of before you were renting homes, do you have a sense of kind of what sales would need to pick up to before you might sort of maybe get more involved in that and maybe draw back on the rentals? Or do you continue to think there will be ample demand for rentals as the cycle continues?

Samuel A. Landy
President, CEO & Director

Right. We'll continue to add 800 rental units a year. It's a great way for people who have never lived in a manufactured home community to experience it. The demand is there. It's a great starter home and then people move up and they buy houses. And we'll continue to use the rental program to generate new sales. I believe that we're just getting started at being a great, great home sale company. We have great people, great locations, marketing, fantastic product. We want to do more land home sales, sales into other people's communities, get more of our street dealerships becoming strong. One street dealership could do $3,700,000 in sales a year pretty easily. So there's plenty of room to grow this, and we have a great staff that's getting better and better.

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

And circling back to the acquisition pipeline, appreciate the color on timing, but as far as 66% occupied, do you have a sense of sort of what your initial yield will be on those? Has that changed at all from where we were a quarter or 2 ago? And can you kind of update us on your expectations there?

Brett Taft
Vice President

So looking at the pipeline, these communities are better quality than a lot of the communities we've done in the past. These are underwritten about 6.25% cap rate going in. Most of the work has already been completed. The CapEx has been done along the way. So we're really going to be putting in rental homes, minimal cleanup. So we should be able to grow our yield pretty quickly.

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

Got it. So it sounds like you're not going to have sort of that natural margin drag from this round of acquisitions. Is that fair to assume?

Brett Taft
Vice President

Yes.

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

Okay. And one more for me, I guess, now that you're having to report your fair market value of your securities every quarter in your net income, and I know you back it out in your FFO calculation. But would it be possible for you guys to report sort of quarterly what your positions are so that the investor base has a better sense of what the impact will be? Because it is impactful to your net asset value, at least as we calculate it. Anyway, I just thought I'd request that, if possible, to be in your Q or your supplement, if possible.

Eugene W. Landy
Founder & Chairman of the Board

Well, that's an interesting suggestion. I'll consider it. But as Anna pointed out, we view the securities portfolio as liquid real estate. And we don't change our views from day-to-day, month-to-month, quarter-to-quarter. We hold positions for decades. And so that's the reason we usually only publish it at year-end. But I will consider whether -- now that the markets have gotten so volatile, maybe we should publish quarterly. And I appreciate the suggestion.

Operator

The next question comes from Brendan Wagner of Montag Wealth.

Brendan Wagner

And it's great to see results like we're having on the home sales. I like to see the ASP up and gross margin seems terrific, congrats. My question is specifically for Anna. Anna, I was wondering, and we've chatted about it a tad in the past, but if you could help me understand the rationale on why you're okay with it as the CFO to be investing in the REIT portfolio to the extent you do. Because when I see the Indiana property, and it's just the bread and butter of what you guys do, it's terrific. But I don't understand the concept of allocating capital to inferior business models, which is a good piece of the REIT portfolio, not the entirety, of course. But could you give me some color on that? Because myself and my clients, we're curious as to that.

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

Okay. As Gene has mentioned, we consider the REIT portfolio as liquid real estate. We use that portfolio in -- for liquidity, primarily for liquidity purposes. In the past, when we had acquisitions and we didn't have the total funds, we were able to take down some of the securities portfolio and purchase the acquisitions. Additionally, when we have money that comes in, we put it back into the securities portfolio. Sometimes, we can raise money at times when we don't have the use for the funds. So it is a good way of storing capital.

Samuel A. Landy
President, CEO & Director

I'd add. This is Samuel. In our 10-Q, you'll see that the results from the REIT securities portfolio have generated $60 million in dividends and realized gains. So while stock prices fluctuate from time to time, the long-term history is that we have $60 million in dividend and realized gains.

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

Additionally, it's only about 10% of our total market capitalization.

Brendan Wagner

And I do appreciate that [indiscernible]. My quick follow-up is that I know where [indiscernible] percentage of asset is...

Eugene W. Landy
Founder & Chairman of the Board

I'm sorry, you're breaking up.

Brendan Wagner

Yes, I'm sorry. Is it [indiscernible] percent or more of the dividends...

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

Brendan, we can't hear you.

Operator

Mr. Wagner...

Brendan Wagner

I'm sorry. I'll follow up.

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

Thank you.

Eugene W. Landy
Founder & Chairman of the Board

Okay.

Brendan Wagner

Can you hear me now?

Eugene W. Landy
Founder & Chairman of the Board

Yes.

Brendan Wagner

Sorry. My question was what percentage of your core FFO is coming from dividends on the REIT portfolio, including dividends from -- looking back, from GOV, SIR and CBL? And will that -- the knockdown in those dividends, would that impact your dividend-paying ability?

Eugene W. Landy
Founder & Chairman of the Board

You're breaking up again. I don't know what phone you're using.

Brendan Wagner

Okay. I'm sorry. I'll follow up offline.

Eugene W. Landy
Founder & Chairman of the Board

Okay, thank you.

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

Okay, thank you.

Operator

The next question comes from Merrill Ross of Boenning.

Merrill Ross
Boenning and Scattergood, Inc., Research Division

I'm wondering about the 800 rental target that you have. And given the returns and value creation from that program, would you have the capability to increase that run rate from 800 to, say, 900 or 1,000 in the future?

Samuel A. Landy
President, CEO & Director

Yes, we have that ability. What we do is we add pretty much 5 rentals per community and see how quickly they rented out. In some cases, we add 15 rentals and see how quickly they rented out. So we're watching that all the time. We predicted 800 for 2018 and it looks like that's going to be the number. But as demand increases, we do have the ability to go faster.

Operator

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

Samuel A. Landy
President, CEO & Director

Thank you, operator. I would like to thank the participants on this call for their continued support and interest in our company. As always, Gene, Anna and I are available for any follow-up questions. We hope to see you at the NAREIT conference later this month, and we look forward to reporting back to you in March with our year-end results.

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 (877) 344-7529 or international 1 (412) 317-0088. The conference ID number is 10124151. Thank you, and please disconnect your lines.