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Market Intelligence

# UMH Properties, Inc. NYSE:UMH

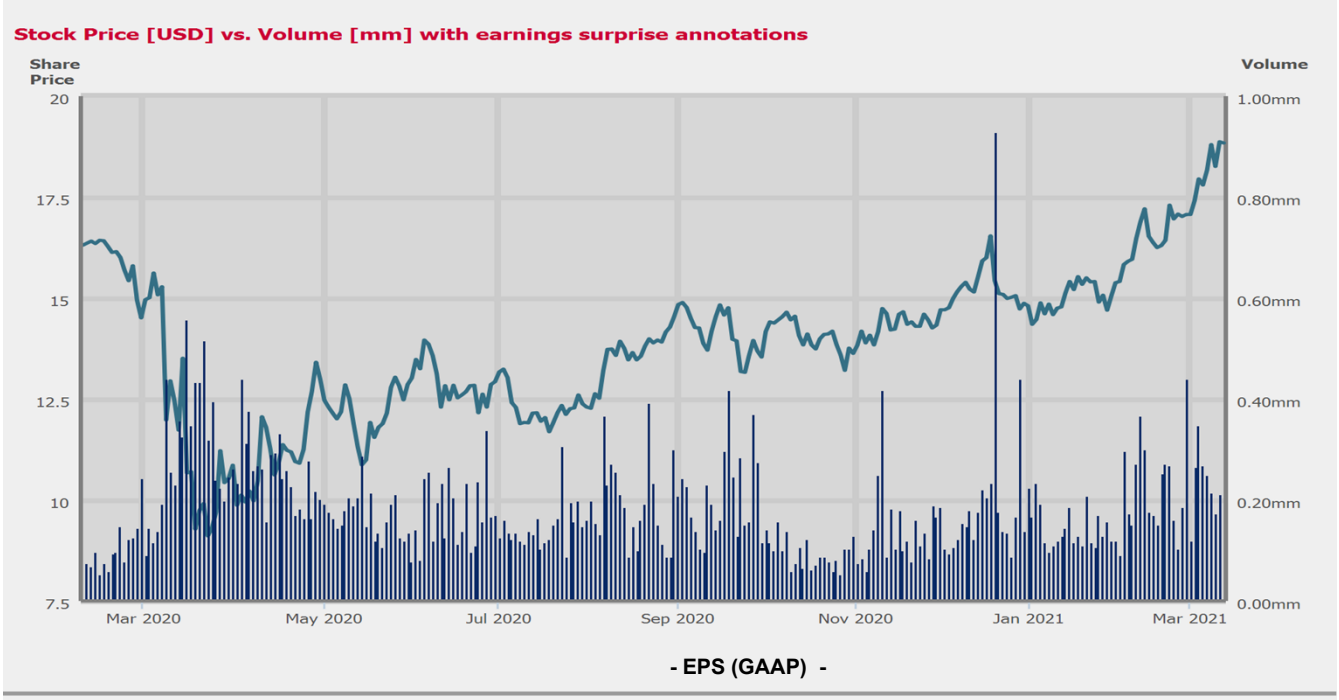
# FQ4 2020 Earnings Call Transcripts

## Thursday, March 11, 2021 3:00 PM GMT

## S&P Global Market Intelligence Estimates

| | -FQ4 2020- | | | -FQ1 2021- | -FY 2020- | | | -FY 2021- |
|---|---|---|---|---|---|---|---|---|
| | CONSENSUS | ACTUAL | SURPRISE | CONSENSUS | CONSENSUS | ACTUAL | SURPRISE | CONSENSUS |
| EPS (GAAP) | (0.08) | 0.38 | NM | (0.04) | (1.12) | (0.72) | NM | (0.13) |
| Revenue (mm) | 42.75 | 42.83 | ▲0.19 | 42.00 | 164.12 | 163.61 | ▼(0.31 %) | 181.77 |

Currency: USD
Consensus as of Mar-12-2021 12:55 PM GMT




**- EPS (GAAP) -**

| | CONSENSUS | ACTUAL | SURPRISE |
|---|---|---|---|
| FQ1 2020 | (0.42) | (1.04) | NM |
| FQ2 2020 | (0.03) | 0.25 | NM |
| FQ3 2020 | (0.12) | (0.31) | NM |
| FQ4 2020 | (0.08) | 0.38 | NM |

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# Call Participants

## EXECUTIVES

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

**Brett Taft**
*VP & COO*

**Daniel Landy**
*Vice President*

**Eugene W. Landy**
*Founder & Chairman of the Board*

**Nelli Madden**
*Vice President of Investor Relations*

**Samuel A. Landy**
*President, CEO & Director*

## ANALYSTS

**Craig Gerald Kucera**
*B. Riley Securities, Inc., Research Division*

**Keegan Grant Carl**
*Joh. Berenberg, Gossler & Co. KG, Research Division*

**Robert Chapman Stevenson**
*Janney Montgomery Scott LLC, Research Division*

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# Presentation

**Operator**

Good morning, and welcome to UMH Properties Fourth Quarter and Full Year 2020 Earnings Conference Call. [Operator Instructions] Please note this event is being recorded.

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

**Nelli Madden**
*Vice President of Investor Relations*

Thank you very much, operator. In addition to the 10-K that we filed with the SEC yesterday, we have filed an unaudited annual and fourth quarter supplemental information presentation. Supplemental information presentation, along with our 10-K, 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. Risks and uncertainties that could cause actual results to differ materially from expectations are detailed in the company's annual 2020 earnings release and filings with the Securities and Exchange Commission. The company disclaims any obligation to update its forward-looking statements.

In addition, during today's call, we will be discussing non-GAAP financial metrics. Reconciliations of these non-GAAP financial metrics to the comparable GAAP financial metrics as well as explanatory and 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; Brett Taft, Vice President and Chief Operating Officer; Jim Lykins, Vice President of Capital Markets; and Daniel Landy, Vice President.

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

**Samuel A. Landy**
*President, CEO & Director*

Thank you very much, Nelli. Over the past year, the world has been thrust into a spiral of uncertainty that is yet to stabilize. The persisting pandemic, both domestically and globally, is still testing the resolve of families and companies alike. Our hearts go out to those who have been affected both directly and indirectly. We would also like to thank those on the front lines for combating the virus.

While 2020 was a challenging year, UMH was able to deliver outstanding results on all fronts. Amid extreme uncertainty, unprecedented unemployment levels and a shrinking GDP, we were able to collect over 98% of our rent, improve our same-property occupancy by 320 basis points, maintain rental home occupancy above 94%, improve our same-property NOI by 15%, increase sales revenue 13%, recapitalized $95 million of 8% preferred stock with 2.62% mortgage debt, and ultimately improved normalized FFO per share by 11%. We are particularly pleased that we were able to increase our dividend by 5.5% to $0.76 per share for 2021. The positive operating performance achieved during such a difficult economic environment highlights the strength of our long-term business plan.

I am pleased to report that normalized FFO for the fourth quarter was $0.20 per share, representing an increase of approximately 18% year-over-year and 11% sequentially. Normalized FFO for the year was $0.70 per share, representing an increase of 11%. Our FFO continues to trend upwards and has covered our dividend 2 quarters in a row. The positive impact to FFO from the refinancing of our 8% Series B preferred stock has not yet been fully recognized as the preferred was redeemed on October 20.

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UMH continues to make progress on the financing front. During the year, we financed a portfolio of 28 unencumbered communities, generating proceeds of $106 million at 2.62%. It is important to note that our investment in these communities totals approximately $116 million. These communities appraised for approximately $145 million, which represents a 25% increase. Most of the communities from this 83% occupied portfolio are acquisitions from the past 8 years, and we have already demonstrated the value we have generated by implementing and executing our business plan. As we infill the remaining sites, we can increase our borrowing under the credit facility to capture the additional increase in value.

As I have already mentioned, the capital generated by this financing was utilized to redeem $95 million of 8% Series B preferred stock, which will generate additional FFO of over $5 million or $0.11 per share annually. This transaction effectively demonstrates the earnings accretive nature of our business plan of acquiring communities below replacement cost, completing deferred maintenance and capital improvement, filling sites with homes for sale and rent, and then financing the communities to capture the value created.

The capital that is generated from financing reduces our overall cost of capital, resulting in improved earnings for shareholders. We are also working to obtain low-cost financing for our rental homes. In October, we entered into a $20 million line of credit, expandable to $30 million, with FirstBank utilizing our rental homes and their income as the collateral. The rate on this line is prime plus 25 basis points. We anticipate growing this line in the future. We are also working with the GSEs and our lending partners to include the rental homes as collateral within our typical mortgages. Once achieved, this will generate a substantial source of long-term financing at low rates.

Moving on to operations. Total income for the year increased 12% to approximately $164 million. This increase was the result of an 11% increase in rental and related income and a 13% increase in sales of manufactured homes. Rental and related income for the year was $143 million. Our operating expense ratio improved to 44.1% from 48% in 2019, which resulted in community NOI of approximately $80 million or an increase of 20% over last year. This is the tenth consecutive year that we have delivered over 10% rental and related income growth and the fifth consecutive year that we have delivered sales growth of over 10%. Our ability to maintain double-digit growth in revenue and sales year after year continues to validate our business plan.

Our same-property results for the year were very strong. Same-property NOI increased 15% or approximately $11 million over 2019. This is the fifth quarter in a row that we have achieved double-digit same-property NOI growth. Applying a market cap rate of 5% to this increase in NOI results in value creation of $160 million after deducting the investment in our rental home program. This increase in NOI was the result of increased occupancy of 320 basis points or 718 occupied sites and rent increases of approximately 3.3%.

Our rental home program had another successful year. During the year, we added 858 homes to our portfolio, bringing our total portfolio to 8,300 rental homes. We continue to maintain occupancy rates above 94%, and our monthly rent per home increased 3.3% to $790 per month. We are experiencing lower turnover than usual and increased demand for our product. We expect to be able to add another 800 to 900 homes in our portfolio this year. We are closely monitoring our inventory and ordering homes to adequately meet our strong demand.

Manufacturers are reporting longer backlogs and increasing their prices. Every rental in our portfolio is more valuable because of this increase in price. We have long been of the opinion that rentals would perform well during a difficult economy. One of the bright spots to come out of this pandemic was to confirm our belief of how well rentals would perform in a challenging environment. Across our footprint, the rental market remains so strong that at times the biggest issue is being able to meet demand. Moreover, there is not much of this type of product coming online.

Merchant developers do not build affordable multifamily apartment complexes but rather highly amenitized assets where the intent is to have a best-in-class asset whereby the owner has the ability to aggressively push rents. These properties cost several million dollars to build, whereas we spend about $85,000 for the lot, purchase and set up of a brand-new home, giving our residents an affordable product which they are unlikely to find elsewhere. Our future growth and our past success are based on our ability to provide rental housing in the right locations and at the right prices. We do this by building or renovating lots for manufactured homes. Each lot is approximately 5,000 square feet and has a 1,000 square foot, energy-efficient, 3-bedroom, 2-bathroom home delivered from the factory. Rental manufactured homes are an attractive housing product at a very reasonable price, and our product is recognized by our residents as the best housing alternative for them.

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Gross sales for 2020 were $20 million, representing an increase of 13% over 2019. We sold a total of 323 homes, of which 140 were new home sales and 183 were used home sales. Sales profits improved substantially from a loss of $290,000 in 2019 to a profit of $768,000 in 2020. Our average sales price was $63,000 as compared to $60,000 in the prior year period. Our gross markup percentage in 2020 was 29% as compared to 28% in 2019. We have several community expansions and strong sales markets coming online that should drive additional sales growth. We believe that we are well positioned to continue to grow our sales profitability in 2021.

Our expansion program is progressing as expected. We are working to obtain approvals for 700 lots in 2021. We have 378 sites that are currently under construction and anticipate obtaining approvals and completing the development of several hundred more. Our 1,800 vacant acres can be developed into 7,300 sites, giving us a meaningful runway to continue to grow the company organically for years to come.

The acquisition market remains competitive, but we have been able to opportunistically acquire communities. In 2020, we acquired 2 communities containing 310 sites, of which 64% are occupied, for a total purchase price of approximately $7.8 million. These 2 communities are well located within our existing footprint, and we will implement our value-added strategy. Subsequent to year-end, we acquired 1 community in Alabama and 1 community in South Carolina. These communities were acquired for $8 million and contain 337 sites, of which only 42% are currently occupied. They are in areas with strong demand for affordable housing, and we expect to generate significant property value appreciation over the next 5 years. These are new markets for UMH, and we look forward to scaling our portfolio in these surrounding states.

I would like to thank all of our dedicated employees who executed on their roles and responsibilities admirably during these trying times. As the global pandemic began, our employees worked hard to find ways so we could continue to operate our business efficiently. Our team developed new ways to do business, including virtual home showings, online rent collection, virtual closings and more. Our excellent performance is the direct result of everyone's hard work and dedication to UMH Properties.

We have a very strong long-term plan to increase per-share earnings and funds from operations for decades to come. We plan on generating similar results in 2021 by obtaining our 4% annual rent increases, investing in an additional 800 to 900 rental homes, continuing to create efficiencies in our platform, opportunistically acquiring communities and further improving our sales operation. Clearing fields, fertilizing the soil and planting the seed cost money; waiting for the harvest takes patience; and having the right weather requires a bit of luck. In 2020, our annual harvest per share increased nicely. We believe we are well positioned for continued future per-share earnings growth, thanks to decades of hard work.

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

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

Thank you, Sam. Funds from operations, or FFO, was $8.5 million or $0.20 per diluted share for the fourth quarter of 2020 compared to $7 million or $0.17 per diluted share for the prior year period. Normalized FFO, which excludes realized gains on the sale of securities and other nonrecurring items, was $8.5 million or $0.20 per diluted share for the fourth quarter of 2020 compared to $7.1 million or $0.17 per diluted share for the prior year period and $7.4 million or $0.18 per diluted share sequentially.

For the full year 2020, FFO, which included $2.9 million of costs associated with the redemption of our Series B preferred stock, was $26.3 million or $0.63 per diluted share compared to $24.6 million or $0.61 per diluted share for 2019. Normalized FFO was $29.2 million or $0.70 per diluted share for 2020 compared to $25.2 million or $0.63 per diluted share for 2019.

Rental and related income for the quarter was $37.6 million compared to $33.6 million a year ago, representing an increase of 12%. For the full year, rental and related income increased from $128.6 million in 2019 to $143.3 million in 2020, an increase of 11%. These increases were primarily due to community acquisitions, the addition of rental homes and the growth in occupancy.

Community NOI increased by 21% for the quarter, from $17.8 million in 2019 to $21.6 million in 2020. For the full year, community NOI increased from $66.9 million in 2019 to $80.2 million in 2020, an increase of 20%. This is the tenth consecutive year that we have achieved double-digit year-over-year NOI growth.

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Sales of manufactured homes increased 28% for the quarter, from $4.1 million in 2019 to $5.3 million in 2020. For the full year, sales increased 13% from $18 million in 2019 to $20.3 million in 2020. Despite the COVID-19 pandemic, we set a new sales record, selling a total of 323 homes, of which 140 were new home sales and 183 were used home sales. The gross profit percentage was 29% for 2020 compared to 28% a year ago. Sales have returned to profitability, generating $768,000 in net profits in 2020 compared to a loss of $290,000 a year ago.

As Sam mentioned, 2020 was a productive year on the financing front. In August, we completed the financing of 28 unencumbered communities with Fannie Mae for proceeds of approximately $106 million with a 10-year maturity and a 30-year amortization at a fixed rate of 2.62%. The properties within this portfolio previously did not qualify for GSE financing because of the relatively low occupancy rates and a high percentage of rental homes. The successful financing of these communities is the culmination of years of hard work lobbying for reasonable financing on rental homes so we can pass these savings to our residents. Fannie Mae issued waivers to allow us to fill up to 60% of the total home sites with rental homes. The acceptance of rental homes in communities is step 1. Step 2 is to obtain financing and include the rental homes as collateral. We're working towards this goal. In the interim, we entered into a $20 million line of credit, expandable to $30 million, with FirstBank that is secured by rental homes and the income derived from them at certain communities. We intend to grow this line in the future. The proceeds from our Fannie Mae financing were utilized to redeem all 3.8 million shares of our 8% Series B perpetual preferred stock on October 20th. This transaction will generate net savings of over $5 million per year.

As we turn to our capital structure, at year-end we had approximately $556 million in debt, of which $469 million was community-level mortgage debt and $87 million was loans payable. 85% of our total debt is fixed rate. The weighted average interest rate on our mortgage debt was 3.81% at year-end 2020 compared to 4.14% in the prior year. The weighted average maturity on our mortgage debt was 6 years at both year-end 2020 and 2019.

During the year, we utilized our common and preferred ATMs. We sold 134,000 shares of Series C preferred stock at a weighted average price of $24.96 per share and 3.8 million shares of our Series D preferred stock at a weighted average price of $24.98 per share, generating total gross proceeds of $97.8 million and total net proceeds of $96.1 million after offering expenses.

We also sold approximately 135,000 shares of common stock at a weighted average price of $14.60 per share, generating gross proceeds of $2 million and net proceeds of $1.7 million after offering expenses. Subsequent to year-end, we sold 768,000 shares of Series D preferred stock at a weighted average price of $24.80 per share, generating gross proceeds of $19.1 million and net proceeds of $18.8 million after offering expenses. We will be using these proceeds for general corporate purposes, which includes the purchase of manufactured homes for sale or lease to customers, expansion of our existing communities, paying down variable rate debt and acquisitions of additional properties.

At the year-end, UMH had a total of $408 million in perpetual preferred equity. Our preferred stock, combined with an equity market capitalization of $621 million and our $556 million in debt, results in a total market capitalization of approximately $1.6 billion at year-end, representing an increase of 5% over the prior year period.

From a credit standpoint, our net debt to total market capitalization was 34%. Our net debt less securities to total market capitalization was 28%. Our net debt to adjusted EBITDA was 6.8x. Our net debt less securities to adjusted EBITDA was 5.5x. Our interest coverage was 4.1x, and our fixed charge coverage was 1.5x.

From a liquidity standpoint, we ended the year with $15 million in cash and cash equivalents and $30 million available on our credit facility with an additional $50 million potentially available pursuant to an accordion feature. We also had $29 million available on our revolving lines of credit for the financing of home sales and the purchase of inventory, and $15 million available on our new line of credit secured by rental homes and rental home leases.

Additionally, we had $103 million in our REIT securities portfolio encumbered by $18 million in margin loans. This portfolio represents approximately 8% of our undepreciated assets. We limit our portfolio to no more than 15% of our undepreciated assets. With the exception of reinvesting our dividends in MREIC, we are committed to not increasing our investments in the REIT securities portfolio. With our strong financial position and access to the capital markets, we are well positioned to continue our growth initiatives.

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

**Eugene W. Landy**
*Founder & Chairman of the Board*

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UMH has a 53-year history of providing quality, affordable housing for our nation's workforce. We thought that we have experienced every economic cycle during these 53 years, but COVID-19 has proven otherwise. Fortunately, UMH has always been positioned to withstand a black swan event. Our raising of $63 million of preferred stock through our ATM program in January could not have been better timed. This capital allowed us to not only survive but to prosper. This capital was utilized to fund our rental home program, expansion program, acquire communities and ultimately continue to execute on our long-term business plan. The results produced by our business plan this year were exceptional, and we believe that this business plan provides a runway for future growth.

UMH has 3,500 vacant sites within our existing communities. We have 1,800 sites that can be developed into additional sites. We have sales centers across the portfolio that are starting to generate significant profits. Most importantly, we can recapitalize $408 million of preferred stock at a blended rate of 6.6% over the next 3 years. Refinancing these preferreds at 4% can result in an increase in per-share earnings of $0.24, and our share price can increase by $5, using a 20x multiple. As the redemption dates approach, we will analyze all of our available sources of capital to determine which method we will utilize to deliver reliable earnings growth and generate shareholder value.

As positions in our securities portfolio continue to recover from the lows of the pandemic, we will analyze each company and determine when and if it would be advantageous to make sales among our holdings. We will sell positions as other investment opportunities in our core business become available.

2020 was a transformative year for UMH. UMH has the wind at its back. Manufactured housing communities have never been in higher demand. Our portfolio of communities has never been more valuable. UMH is positioned for meaningful growth with multiple levers that could help drive the stock price higher. As we have laid out in this call, we continue to achieve industry-leading operating results. We have now had 3 sequential quarters with positive per-share FFO increases, and we have laid out a plan to continue this performance moving forward. We hope that our recent dividend hike may be an annual occurrence going forward, and we want to reward those that invest in UMH. We are evaluating our securities portfolio and will continue to reduce it as a percentage of our undepreciated assets. There is clearly a lot to be excited about.
And with that, operator, we'd be happy to take any questions.

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# Question and Answer

**Operator**

[Operator Instructions] The first question comes from Keegan Carl with Berenberg.

**Keegan Grant Carl**
*Joh. Berenberg, Gossler & Co. KG, Research Division*

So I guess to kick things off, how should we think about your sources of capital going forward? Maybe could you walk us through the rationale behind issuing more Series B preferreds and your thoughts on equity at your current price?

**Samuel A. Landy**
*President, CEO & Director*

Sure. Sam Landy here. Well, all the sources of capital are open to us. We have unused credit lines. We have the REIT securities portfolio. We can issue preferred stock. We could issue common through the ATM, and the cost of all of those sources of capital are going down. Additionally, we continue to work on direct financing of the rental homes through the GSEs. So we are always evaluating every day what is the lowest source of capital and which of those options we should take advantage of to meet the capital needs.

The capital needs remain the same. We hope to add 800 to 900 rental units, $40 million to $50 million; build our expansions, approximately $20 million. The financing of home sales is growing. That's approximately -- last year it was $17 million in new paper. This year maybe it'll be $20 million in new paper. And we're building -- additionally, we're building the expansions. All of these things, acquisitions, will generate capital needs, but we evaluate it all of the time. And if you look at our past, we created this platform of over $1 billion in manufactured home communities. We own the 8,000 rental homes, worth about $400 million or more. And so as that $1 billion of real estate goes up in value, 4%, that's $40 million. There's 40 million shares outstanding. So that's -- a little more than 40 million shares outstanding. But it's about $1 a share in appreciation, plus the FFO. And we continue to monitor that to generate the best returns possible per share for shareholders, and it's starting to show today.

**Keegan Grant Carl**
*Joh. Berenberg, Gossler & Co. KG, Research Division*

Understood. And then how should we think about same-store growth in 2021? Is it kind of fair to think mid-single digit, just given your typical 4% rent increase on 80% occupied communities and then kind of a continued uptick in occupancy?

**Samuel A. Landy**
*President, CEO & Director*

Well, the rental revenue. So Brett...

**Brett Taft**
*VP & COO*

Yes. Same-store 2021, we feel very good about our prospects. By putting in 800 to 900 rental homes and achieving our 4% rent increases, we think that we can grow revenue similarly, which was 8.4% in 2020. Now expenses will increase a little bit this year as things return to normal. There will be some travel expenses, some legal expenses. But generally, we should be able to keep that under or at 5%, which should result in low double-digit same-store NOI growth.

**Operator**

The next question comes from Rob Stevenson with Janney.

**Robert Chapman Stevenson**
*Janney Montgomery Scott LLC, Research Division*

Anna, were you being told that you could price preferred stock today if you guys went out with a new issue rather than keep issuing off of the existing stack?

**Anna T. Chew**

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*VP, Chief Financial & Accounting Officer, Treasurer and Director*

We've been told it's about the same as what the existing stack is, and so we have not gone to new issue. As we need capital, we look at both -- as Sam said, we both look at everything that we have available, including the common ATM as well as the preferred ATM as well as our lines of credit that we have available.

**Robert Chapman Stevenson**
*Janney Montgomery Scott LLC, Research Division*

Okay. So the earnings accretion from refinancing the preferred stock over the next few years at 4% that Gene spoke about assumes that you replace the bulk of the preferred with debt and maybe some equity in there?

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

It could be a combination. It depends on, at the time, what the interest rates are and what our capital needs are.

**Robert Chapman Stevenson**
*Janney Montgomery Scott LLC, Research Division*

Okay. Because I was just trying to understand, that's not a like-for-like, that's not taking out your existing preferred with a new stack of preferred because the pricing gap isn't that big to create that level of accretion, right? It would have to be debt and/or something else?

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

Right. You are correct. Because as we took out the preferred B, we took it out with debt. When it comes to our preferred C and D, we will see at the time what the best course of action will be. But we have many avenues available to us.

**Robert Chapman Stevenson**
*Janney Montgomery Scott LLC, Research Division*

Okay. And then, Sam, you talked about -- so you've got 3,500 vacant sites or you ended the year roughly that amount. You got another, call it, 100 vacant sites from the acquisitions that you guys have completed here in the first quarter. So if I'm thinking about sort of 3,600 vacant sites, and then you're probably going to add some sites in 2021 from your land bank, how did you guys come up with the sort of 800 to 900 rental homes in 2021? You guys did 858 in 2020. Why isn't that 800 to 900 rental homes in 2021 a 1,000 to 1,200? Is there some limiting capacity here? Is it the availability of the homes? Your ability to lease them up in a reasonable period of time, get them set up? Help me understand why sort of the rental home guidance for 2021 is pretty much flattish with 2020 rather than increasing here.

**Samuel A. Landy**
*President, CEO & Director*

Yes. This year, at this moment, there are supply constraints. We have our orders that were previously placed, but certain factories have very long backlogs. We're talking about, I've heard of times as late as December to get homes. But mostly, we expect to get the homes in a reasonable time, but it does create issues in projecting that we're going to grow rentals more than 800 or 900 homes this year.

We're building the expansion lots. We'll have 400 lots complete where we can have new home sales. We have the vacant sites where things are going well to add the 800 to 900 homes. I know of a factory that told me the whole problem is just lack of employees. And so if they're able to hire workers, they can speed up production. So we're dependent on the factories. And right now it's difficult to say they can deliver more than 800 to 900 homes. But that is the only thing slowing us down to coming up with higher numbers.

**Robert Chapman Stevenson**
*Janney Montgomery Scott LLC, Research Division*

Okay. And then when you're thinking about it for 2021, I mean what's the -- so 800 to 900 rental homes, you're going to sell some number of homes, presumably it will be something in the neighborhood of what you sold last year plus or minus some level, and so what do you think the sort of organic sort of other move-ins might wind up being? Is it basically the occupancy gain basically at this point coming 90% from the rental homes and 10% from people just leasing a pad and

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putting their own home on it? Do you see that changing to any extent, especially given any type of -- the supply issues on the home site -- on the home side that you're alluding to?

**Samuel A. Landy**
*President, CEO & Director*

So UMH has discovered why the apartment business has always been successful. There are always people who need affordable rental housing. And UMH has found that existing manufactured home communities in good location, adding rental units is the best way to provide the most affordable housing there is. And we're adding about 800 rentals for about every 100 new homes we sell. There's still customers for new home sales, the 55 and older, people who are staying long term. And those opportunities for sales are growing because incomes are rising, the Baby Boomers aging, and so we expect sales to increase. We expect the owners of homes in communities to increase. But we see ourselves right now like a franchise, Home Depot, Walmart, McDonald's, Burger King, we have a formula that works. And so now our issue in front of us is how do we go out and open as many new stores as possible profitably. And it's far more difficult to get approvals and build greenfield new rental home manufactured home communities. That's far more difficult than buying existing communities who have deferred maintenance and did not shift over to the rental home model. So as good as our internal growth would be, I think it's time to become even more excited about our external growth opportunities because we've gained significant confidence in that business plan. We've moved to new states in the past year, and we're going to continue to move to new states in the future. So it's all a very exciting time for UMH.

**Operator**

[Operator Instructions] The next question is from Craig Kucera with B. Riley FBR.

**Craig Gerald Kucera**
*B. Riley Securities, Inc., Research Division*

Sam, you mentioned some inflation in manufactured housing costs. How meaningful has that been over the last quarter or so?

**Samuel A. Landy**
*President, CEO & Director*

Well, it's past the year and I think we're seeing 10% core price increases. Brett, what do you think?

**Brett Taft**
*VP & COO*

In the past quarter, it's probably about 10%. From prior to the pandemic, we're up 20% to 30%, depending on the location, which we are able to get and rent. So our numbers are still coming in strong. We're also seeing an increase in prices on materials related to home set and everything like that in the 10% range. So certainly, prices are increasing.

**Samuel A. Landy**
*President, CEO & Director*

Which goes to the story, do rental homes depreciate? And when the cost to replace them is going up that much, they're not depreciating, they're increasing in value.

**Craig Gerald Kucera**
*B. Riley Securities, Inc., Research Division*

Got it. And does that change the calculus of putting in a rental home? Or are you able to pass through those? Or do you anticipate being able to pass through those rising costs to your renters and/or buyers?

**Samuel A. Landy**
*President, CEO & Director*

Exactly. As conventional home prices go up, as apartment rents go up, our ability to increase the price of our product and still be lower than any comparable housing is actually getting stronger because apartment rents, home prices and other costs are rising so fast. And a lower percentage of a higher number is greater than the higher percentage of a small number.

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**Craig Gerald Kucera**
*B. Riley Securities, Inc., Research Division*

Got it. I think last quarter you mentioned you had a couple of stabilized communities under contract in the Northeast, I think, for maybe around $13 million. Are you still likely to move forward with those maybe in the first half of this year?

**Brett Taft**
*VP & COO*

It's a good question, and I was waiting for somebody to ask it. So those 2 properties are in a state that has a -- the residents have the first right of refusal, and there are companies that work with those tenants to try to put together groups to purchase the property. So they are attempting to buy it. We should have an update here in the next week or 2 on that. I know that they were trying to obtain the financing necessary to acquire the property. If they do, then they will own it. If they don't, it will come back to us, and that will be added to our acquisition pipeline.

**Craig Gerald Kucera**
*B. Riley Securities, Inc., Research Division*

Got it. And just given the improvement in your cost of capital, are you starting to maybe consider some stabilized assets that perhaps a year or so ago you would have passed on because they just didn't pencil out? Or are you still primarily looking for more of your deep-value communities where you've got 40%, 50%, 60% occupancy and clean them up and making money that way?

**Samuel A. Landy**
*President, CEO & Director*

Yes. We're interested in all properties based on how much we can grow earnings from them. But the simplest way to grow earnings, the lowest-risk way is to turn around properties. We're buying sites, $30,000 per site. I just saw a community in Colorado, older community, 200 sites sold for $90,000 per site. So if we can buy $40,000 or below, there's almost no risk, turn it around and increase the value per site, the revenue, the profitability. When you're buying those 95% occupied communities, it's -- there's much less room for increased income. And so, to me, that means they're higher risk.

**Craig Gerald Kucera**
*B. Riley Securities, Inc., Research Division*

Got it. And you touched on your operating expenses expectations for this year, and I know they were down year-over-year this quarter and flat for the year. But I'd be curious, are there still opportunities on the submetering front to reduce your utility costs? Or are those more or less behind you?

**Samuel A. Landy**
*President, CEO & Director*

We're going to let Daniel Landy answer that. Go ahead.

**Daniel Landy**
*Vice President*

There are still around 8 communities that have not been submetered, that are on public water, so we still have opportunities there. Yet for 2020 water and sewer expenses were flat. And obviously occupancy went up. So we've been way more efficient with water and sewer usage. And we think, going forward, we can still be more efficient.

**Operator**

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

**Samuel A. Landy**
*President, CEO & Director*

Thank you, operator. I would like to thank the participants on this call for their continued support and interest in our company. As always, Gene, Anna, Brett and I are available for any follow-up questions. We look forward to reporting back to you in May with our first quarter 2021 results. Thank you.

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**Operator**
The conference has now concluded. Thank you for attending today's presentation. The teleconference replay will be available in approximately 1 hour. To access this replay, please dial U.S. toll free 1 (877) 344-7529 or international at 1 (412) 317-0088. The conference ID number is 10151272. Thank you, and please disconnect your lines.

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