S&P Global
Market Intelligence

UMH Properties, Inc. NYSE:UMH

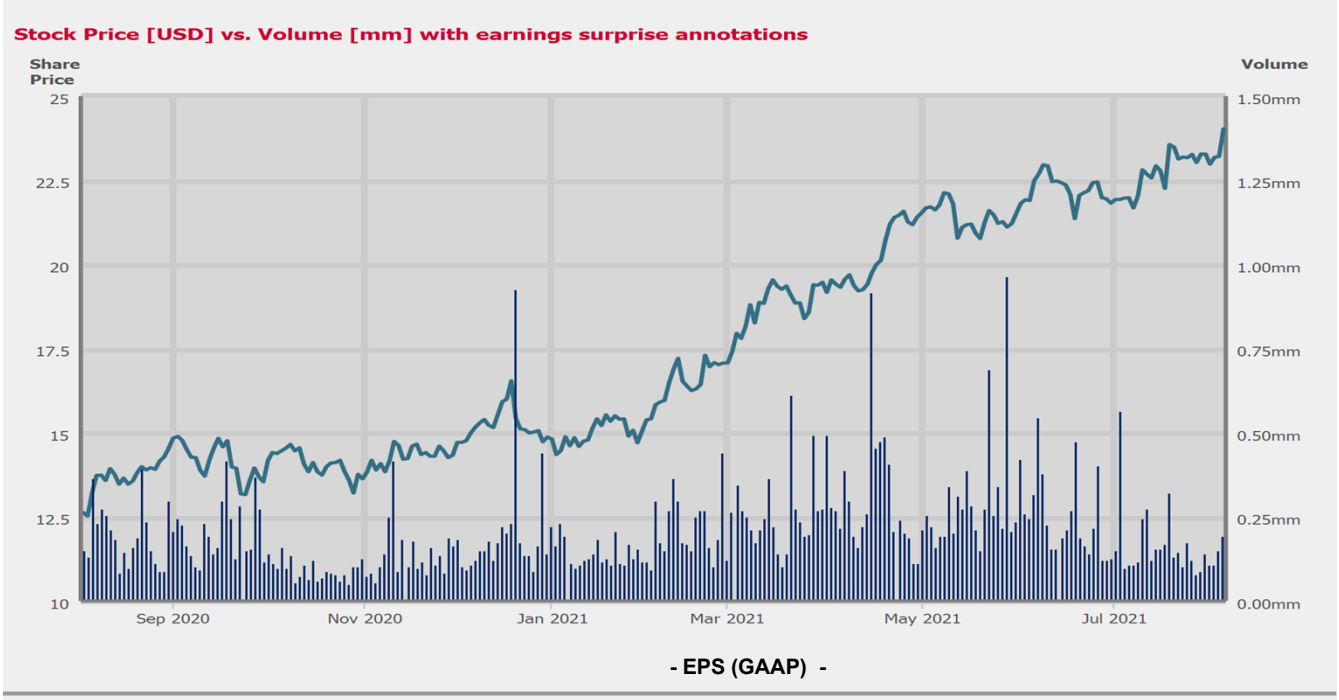
FQ2 2021 Earnings Call Transcripts

Thursday, August 05, 2021 2:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2021-			-FQ3 2021-	-FY 2021-	-FY 2022-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS (GAAP)	0.01	0.18	1700.00	0.06	0.22	NA
Revenue (mm)	46.47	48.96	5.36	49.88	188.31	NA

Currency: USD
Consensus as of Aug-05-2021 6:45 PM GMT



- EPS (GAAP) -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2020	(0.12)	(0.31)	NM
FQ4 2020	(0.08)	0.38	NM
FQ1 2021	(0.05)	0.16	NM
FQ2 2021	0.01	0.18	1700.00 %

COPYRIGHT © 2021 S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved

Table of Contents

Call Participants	.....	3
Presentation	.....	4
Question and Answer	.....	8

COPYRIGHT © 2021 S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved

Call Participants

EXECUTIVES

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

Brett Taft
VP & COO

Eugene W. Landy
Founder & Chairman of the Board

Nelli Madden
Vice President of Investor Relations

Samuel A. Landy
President, CEO & Director

ANALYSTS

Brian Christopher Hollenden
Aegis Capital Corporation, Research Division

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

Michael Zuk
Oppenheimer & Co. Inc., Research Division

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

Copyright © 2021 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Presentation

Operator

Good morning, and welcome to the UMH Properties Second Quarter 2021 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-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. 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 2021 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. We are pleased to report that we continue to make progress on all aspects of our business plan. Our strong revenue, occupancy and sales growth is translating to the bottom line. This growth resulted in quarter 2 normalized FFO of $0.22 per share as compared to $0.17 per share last year. This represents an increase of approximately 29% over the same quarter last year. Sequentially, normalized FFO increased by $0.02 or 10% over the first quarter of 2021. For the first 6 months of the year, normalized FFO was $0.42, which is an increase of 31% over last year.

This performance is the result of years of hard work acquiring underperforming communities and implementing our value-add business plan. Our hard work and the value created by our platform have started to be reflected in our stock price, and we are now significantly benefiting our shareholders and the company.

During the quarter, our shares traded at new highs, which resulted in an equity market capitalization of greater than $1 billion. Our reduced cost of capital opens the door for acquisitions and development opportunities that were previously not available to us.

Moving on to operations. Total income for the quarter increased 22% to approximately $49 million. This increase was the result of a 12% increase in rental and related income and a 91% increase in sales of manufactured homes. Our operating expense ratio improved to 43.3% from 44% last year. Our same property results remained strong. For the quarter, same property occupancy was up 280 basis points or 658 units over last year.

Copyright © 2021 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Sequentially, same-property occupancy increased by 186 units. Same-property NOI increased 13% or $2.7 million as compared to the second quarter of 2020. Year-to-date, same-property NOI increased 14.5% or $5.8 million as compared to last year. This is the seventh quarter in a row that we have achieved double-digit same-property NOI growth. The improved operating results substantially increased the value of our portfolio.

During the quarter, we added 134 homes to our rental portfolio, bringing our total portfolio to approximately 8,600 rental homes. At quarter end, our rental home occupancy rate was 95.9%. The rental home business has continued to meet our expectations. Demand for rental units throughout our portfolio remains robust. The availability and price of inventory remains our biggest concern. We have been aggressively ordering homes and believe that we will achieve similar occupancy and revenue gains throughout the rest of the year.

Home prices are up approximately 40% from pre-COVID levels. We believe that at some point, the supply chain will return to previous norms with prices and delivery times eventually easing. Gross sales for the second quarter were $9.6 million, representing an increase of 91% over last year. It's important to note that even with the impact of COVID, last year's sales were strong as compared to our historic results. This was a quarterly sales record. We sold a total of 120 homes, of which 73 were new home sales and 47 were used home sales. Our average sales price was $80,000 as compared to $61,000 in the prior year period. We financed 63% of our home sales, and our portfolio now has a principal balance of $49.2 million at a weighted average interest rate of 7.1%.

Our communities are reporting strong sales demand, and we anticipate continued sales growth for the remainder of the year. Our sales operation's biggest concern is also the availability and pricing of our inventory. We have expansion sites coming online in markets that are experiencing strong sales demand. We anticipate completing the development of approximately 330 sites in 2021. These expansion sites are anticipated to generate meaningful sales increase in the future.

During the quarter, we acquired one community in Ohio for a total purchase price of $10.3 million. The community contains 206 sites, of which 86% are currently occupied. The community is well located within our existing footprint in Ohio. The community is in relatively good condition but will require some paving, office and clubhouse renovation and the removal and replacement of old homes. We continue to seek acquisitions that meet our growth criteria. There is strong demand for stabilized and value-add manufactured home communities. This has resulted in increased prices and limited opportunities that fit our growth criteria.

High-quality communities are trading at or above replacement value. As a result of this elevated pricing, we have decided that now is the time to build or buy new communities from developers. We have entered into a contract to purchase one all-age community in Florida that is currently being developed. We also have an executed letter of intent and are working towards contract on another development deal in Florida. These communities will contain a total of 366 developed sites for a total purchase price of approximately $38.4 million. The communities will be highly amenitized with clubhouses, pools, bocce ball, pickleball, splash pools, dog parks and more.

To fund these acquisitions, we are considering all options, including potential joint ventures with institutional investors. UMH can generate similar earnings growth for the foreseeable future by filling our 3,400 vacant sites, obtaining our 4% rent increases, increasing the volume and profitability of our home sales, expanding our communities and growing our finance business. The continued improvement in our operating results will drive significant earnings growth, but the reduction of our cost of capital will be equally, if not more beneficial.

We plan to call our $247 million 6.75% Series C preferred stock in July of 2022, reducing our cost of capital from 6.75% to 4% would generate additional FFO of $6.8 million or $0.16 per share. Further, in January of 2023, we plan on calling our $215 million 6.375% Series D preferred stock.

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

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

Thank you, Sam. Funds from operations, or FFO, was $9.9 million or $0.21 per diluted share for the second quarter of 2021 compared to $7.1 million or $0.17 per diluted share for the prior year period. Normalized FFO, which excludes certain nonrecurring items, was $10.3 million or $0.22 per diluted share for the second quarter of 2021 compared to $7.1 million or $0.17 per diluted share for the prior year period. These increases were due to the strength of our operating results as well as the redemption of our 8% Series B preferred stock in October 2020.

Copyright © 2021 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Rental and related income for the quarter was $39.3 million compared to $35.1 million a year ago, representing an increase of 12%. Community NOI increased by 14% for the quarter from $19.6 million in 2020 to $22.3 million in 2021. These increases were primarily due to community acquisitions, the addition of rental homes, the growth in occupancy and an increase in rental rates. Our same-property monthly site rent increased 3.7% and our monthly home rent increased 3.6%. Our average monthly site rent is now $471 and our average home rent is $805. Same-property occupancy increased 280 basis points or 658 occupied sites over last year. Same-property occupancy is now 87.1% and same-property rental home occupancy is 96.3%.

Sales of manufactured homes increased 91% for the quarter from $5 million in 2020 to $9.6 million in 2021. Our 91% increase in sales resulted in a sales gain of $1.2 million for the quarter as compared to a $118,000 gain in the prior year. Year-to-date, sales have improved 70% from $8.2 million last year to $14 million this year. Our sales gain for the year is at $929,000 as compared to a loss of $197,000 last year.

During the quarter, our common shares reached an all-time high stock price of $23.31. This new high as well as the additional equity raised through our ATM resulted in our equity market capitalization surpassing $1 billion. We sold approximately 3.9 million shares of common stock at a weighted average price of $20.37 per share, generating gross proceeds of $79.3 million and net proceeds of $78.1 million after offering expenses. These proceeds will be used for general corporate purposes, which include the purchase of manufactured homes for sale or lease to customers, acquisitions of additional properties, expansion of our existing communities and paying down short-term debt on a temporary basis.

As we turn to our capital structure, at quarter end, we had approximately $530 million in debt, of which $466 million was community-level mortgage debt, and $64 million was loans payable. 88% of our total debt is fixed rate. The weighted average interest rate on our mortgage debt was 3.81% at quarter end compared to 4.14% in the prior year. The weighted average maturity on our mortgage debt was 5.5 years, which is unchanged from a year ago.

At quarter end, UMH had a total of $462 million in perpetual preferred equity. Our preferred stock, combined with an equity market capitalization of $1 billion and our $530 million in debt, results in a total market capitalization of approximately $2 billion at quarter end, representing an increase of 41% over the prior year period.

From a credit standpoint, our net debt to total market capitalization was 22%. Our net debt less securities to total market capitalization was 16%. Our net debt to adjusted EBITDA was 5.2x. Our net debt less securities to adjusted EBITDA was 3.8x. Our interest coverage was 4.1x and our fixed charge coverage was 1.7x.

From a liquidity standpoint, we ended the quarter with $90.1 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 $35 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 line of credit secured by rental homes and rental home leases. Additionally, we had $115 million in our REIT securities portfolio that is currently unencumbered. The portfolio represents approximately 7.7% of our undepreciated assets. We limit our portfolio to no more than 15% of our undepreciated assets. We are committed to not increasing our investments in the REIT securities portfolio.

During the quarter, we sold $2 million of securities for a realized gain of $436,000. We plan on maintaining our securities portfolio at approximately $100 million. Our solid community operating results have increased the value of our communities. This has allowed us to reduce our cost of capital by mortgaging the communities and utilizing the proceeds to redeem our higher cost preferred stock. The improved earnings have increased our stock price, now providing us with an additional advantageous source of capital.

We also continue to make progress obtaining low-cost financing on our rental units. We plan to utilize a combination of equity, debt and potentially lower cost preferred stock to redeem our Series C and D perpetual preferred stock, which are callable in July of 2022 and January of 2023, respectively. We have built a strong foundation on which we can continue to grow the company for the benefit of our long-term shareholders.

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

Eugene W. Landy
Founder & Chairman of the Board

Copyright © 2021 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Thank you, Anna. UMH Properties, Inc. has a 53-year history of providing quality, affordable housing. Our country faces an affordable housing crisis due to a lack of construction that has pushed the price of existing houses beyond affordability for many. The resulting gap of 5.5 million housing units needed nationally only worsens when adding in loss of existing units to demolition, obsolescence and natural disasters. The total housing needed then reaches 6.8 million units.

The manufactured housing industry is now building less than 100,000 housing units per year. The need for affordable housing units could easily support a doubling of that production. Current production and need will fill all existing vacant manufactured housing sites. This will necessitate building more than 100,000 new sites a year, equaling 500 new communities of 200 sites each. Florida leads in both projected population growth and need for affordable housing. Creating a business that meets the need is financially and socially desirable.

UMH has grown through value-add acquisitions because we were able to acquire manufactured home sites in good markets significantly below replacement cost. Acquiring communities at these low prices allowed us to make the necessary investments in capital improvements and homes to drive industry-leading returns, while generating significant property level appreciation. We have been extremely successful in this endeavor, but our success has led to imitation, which has driven increased competition, ultimately leading to increased prices. Prices for high-quality existing communities are now at or exceeding replacement cost.

We will still evaluate value-add deals and intend to grow through value-add acquisitions. We are also positioning the company to grow through newly developed communities. We are working to build relationships with developers that can deliver fully approved and developed manufactured home communities. This structure will take the approval and development risk away from UMH and delivers high-quality vacant sites.

At the time of the closing, the communities will be ready for home installation. This will significantly improve our results as the time between the capital outlay and income production will be greatly reduced. We will either rent or sell homes in these communities. This strategy will not solve the affordable housing crisis, but it certainly is a start.
We will now be happy to take your questions.

Copyright © 2021 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Question and Answer

Operator

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

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

Sam, so you indicated that the second quarter average price on home sales was $80,000 per home and up materially over the pre-COVID cost. But that pricing was also up 33% versus the first quarter level of about $60,000 per home. What caused the huge jump from just 90 days ago? I understand versus pre-COVID, but what happened in that sort of 90 days that jumped that pricing up that much? Or did you just pocket a bunch more profit there?

Samuel A. Landy
President, CEO & Director

Brett, go ahead.

Brett Taft
VP & COO

Yes. Yes. So the second quarter, first of all, we did $9.6 million in sales. Of that, the majority of those home sales were new home sales, which are going to have a higher price. The margins are certainly improving, and we have been pushing for higher prices as our costs are going up. But the majority of the increase in the average price of the homes was because we sold so many new homes in the quarter. And our -- average was about $103,000 per home.

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

Okay. That's helpful. And then what are you seeing sort of sequentially over the last 6 months in terms of the cost of the homes to you, the stuff that you're using for rental units? How much inflation are you seeing? And what type of difficulty in getting those to you is there still today?

Samuel A. Landy
President, CEO & Director

Brett is going to answer that, but I just want to tell you that we believe the -- that the really big cost increase from the factory, but we also believe that's relatively temporary. But go ahead, Brett.

Brett Taft
VP & COO

Yes, sure. So again, prices are still up approximately 40% from pre-COVID levels. They've certainly increased a little bit more, but nothing too substantial that we haven't already handled.

So as far as the timing, that's really the main concern that I see. We're able to get the rental rates we need to justify purchasing the homes at the elevated prices. But if we had more homes, quite frankly, we could sell and rent more homes. We have plenty of inventory at the moment. We've got 193 homes on site right now that are ready for occupancy or getting ready for occupancy. We've got 850 homes on order, 250 of which were ordered in the first quarter of this year. The homes ordered in the first quarter are starting to be delivered now. So those homes and the homes we already have on site will give us the ability to continue to generate occupancy growth in the third and fourth quarter, but it's something we closely monitor and something we certainly hope eases soon.

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

Okay. So that leads me to my next question that you sort of alluded to there, in terms of the pricing of the rental units impact on your returns there. So on a same-store basis, your year-over-year rents are up 3.5%. What is it -- what are you guys achieving on when a tenant moves out on a new tenant, right? Because your rental rates on the same-store stuff --

Copyright © 2021 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

when you're passing stuff along to existing tenants, your rental rates seem to go up at a fairly measured rate that you don't pass on double-digit rental rate increases typically on an annual basis. But what are you getting when somebody moves out and somebody else moves in, and you're able to adjust that without having to deal with an existing tenant?

Samuel A. Landy
President, CEO & Director

Yes. We evaluate it on a community-by-community basis. Because if a community, 95%-plus occupied and the rentals are 98%-plus occupied and you get a vacant rental, you can increase that rent 10% before the next tenant. You judge it based on market. We very much appreciate the positive word of mouth we get by having a quality product available at a 40 -- at an affordable price, and we don't want to jeopardize that. But whereas we only raised the rent for existing residents 4%, if a home became vacant with those parameters with high demand, low supply, we can increase the rent more and it's generally about 10%.

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

Okay. That's helpful.

Eugene W. Landy
Founder & Chairman of the Board

If I can add one thing, I always advocate people going on the Internet, going to other services like Zillow, seeing what's available in the market, you can do your own shopping. And we believe UMH is a quality product by substantially below the competition. And that differential is going further in our favor because the apartments and the home prices are going up faster than we're raising our rents. So competitively, our position is improving.

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

Okay. And then what -- you guys talked about the development properties that you guys are looking to acquire. How big is the acquisition pipeline behind that that you're evaluating these days?

Brett Taft
VP & COO

Yes. So I'll separate it in 2. On the existing communities, our typical acquisition pipeline is empty right now. We are looking at several deals, but nothing that we've got offers out. Something that we're thinking about making some offers on, but nothing to be updated at this time. We've done $18.3 million of existing acquisitions this year, 560 sites. We're happy with that volume. We think that we can do more. But again, with pricing where it is, there's fewer opportunities than there used to be.

On the newly developed communities, we think we have a very strong pipeline of potential properties that are being developed at the moment or will soon be developed. We just announced the $38 million. And all I would say at the moment is there are several more behind that, depending on how these first few properties go.

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

Okay. So that leads me to my last question. So Sam, it seems like given that sort of color, it seems like good acquisition opportunities for you guys are more scarce today for you than capital is, especially given where the equity is being priced today. Can you talk about why you would want to share that upside with a JV partner? I understand if your acquisition pipeline were to escalate to like $300 million that it would be outsized relative to the overall enterprise value of the company and maybe you'd want to bring a JV partner.

But even with additional development deals behind this, it seems like that you're still going to be in that sort of, call it, $100 million of acquisition range, and it seems like the opportunities today are more scarce. What's the incentive here for you guys to talk about bringing in a JV partner potentially?

Samuel A. Landy
President, CEO & Director

Copyright © 2021 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Gene is going to begin that. Go ahead.

Eugene W. Landy
Founder & Chairman of the Board

Okay. The industry needs to produce and go back to where it was 30, 40 years ago, back to 200,000 units a year. All our communities are filling up, going to be full in a few years. And if we're going to meet the affordable housing crisis, we have to build new communities. And the magnitude of that is immense. I put in my opening remarks that you need at least 500 new communities in the United States at 200 spaces a piece, that would be 100,000 units, and that's almost insignificant in relation to the need.

So the reason we're bringing in this joint venture partner is not that we need joint venture partners at the present time, but we just don't know how big this is going to get. It's very hard to get approvals. It's very hard to get communities, but the demand is immense and the rewards, both socially and financially, will be very great if we can find a way and we must find a way to build another 100,000 units a year in the United States.

Operator

The next question will come from Michael Zuk with Oppenheimer.

Michael Zuk
Oppenheimer & Co. Inc., Research Division

Gene and Sam, just a outsized question. Are you having any impact from the rent moratorium that has been going on across the nation? What's the status of any rent deferrals in your system?

Samuel A. Landy
President, CEO & Director

You could see our results are phenomenal. So it has not had any negative impact on us. The eviction moratorium is being lifted. We only raised rents 4%. I don't know if any...

Brett Taft
VP & COO

No. I mean just to add a little bit there. Our collections still remain extremely strong. Collections in the second quarter were about 98%. Our July collections finished at 95%. They'll get up to 98% here shortly.

The main impact it's had is the people that have not been paying since the start of the pandemic now have significant balances, and the 90-plus day column is higher than we'd like it to be. But when the courts open up, assuming we can't work out payment plans and get these people current, which is the #1 goal, those units will be turned over and a new tenant that will pay the rent will be in there.

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

I did want to add that our bad debt expense and our allowance of bad debt and our write-offs remain at prepandemic levels.

Michael Zuk
Oppenheimer & Co. Inc., Research Division

Would you consider the fact that the demographics of your tenant base are different from the typical demographics in a large urban area? Is that the reason why you are having such a good success of keeping the moratorium numbers low?

Samuel A. Landy
President, CEO & Director

I believe the success comes from -- if you were to visit our communities, which, by the way, anybody can basically visit our communities from home by going to umh.reit.com and seeing the drone videos. And those drone videos not only allow you to see the communities, but to see the progress on our expansions and to see -- you can watch the land clearing going on, the homes going in, all of those things.

Copyright © 2021 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

But you'll find by looking at the map of our properties, what we see when we go out there. In Central Pennsylvania, there's warehouses surrounding our properties with help wanted signs at $22 per hour. Nashville's booming, Indiana booming for manufacturing, Ohio. So wherever we go in -- at our communities, we're workforce housing, and the workforce has done extremely well through COVID. That's why sales are so good. That's why collections are so good. Rental occupancy is so good.

You look at the deal our residents have with the low site rent, low home rents, they come to a place, they get a good job, paying $22 per hour and yet they have low housing costs. We have -- we run into people who are the employers in their various towns. And those people welcome us because they know they can't get employees unless the employees can find quality affordable housing. So when we seek expansions or to build communities, sometimes our biggest advocates are the local factories, warehouses and people who need employment. And the people who work there are, as far as I can tell in every location I've been to, they're doing extremely well, better than ever, and that's what's responsible for our great results.

Michael Zuk
Oppenheimer & Co. Inc., Research Division

Well, congratulations to Gene, Sam and Anna and the other staff members. You're great stewards of the shareholders' equity, and we appreciate your continued success.

Operator

[Operator Instructions] Our next question will come from Brian Hollenden of Aegis Capital.

Brian Christopher Hollenden
Aegis Capital Corporation, Research Division

Congrats on the 91% increase in home sales. It seems like the third quarter typically exceeds second quarter levels. Is it fair to expect more than 120 homes sold in the third quarter? And how should we think about the sales levels over the next 12 months?

Samuel A. Landy
President, CEO & Director

Brett will respond more. But from the time I began with UMH, I'm going back to about 1987, our object was to build a sales company. And we had some very good years. In 2006, we sold $16 million worth of houses and made $2 million. From there, various major economic factors pretty much conspired against us on sales. But now everything is going in our favor and sales are growing and profitable. And we see that for the foreseeable future, with the only problem being the difficulty in getting inventory and the increasing cost of inventory.

But we also see that problem solving itself, but maybe it won't solve itself by the fourth quarter. It may take a little longer, but that problem will solve itself. But meanwhile, the recognition of the customer, of the quality of our product and the great opportunity they have for themselves to live in a community with amenities, to live in a great house built in the factory and to do it at a cost less than 30% of their income, that recognition is going to generate substantial sales growth for the foreseeable future. But go ahead, Brett.

Brett Taft
VP & COO

Yes. I'm going to be a little bit careful in the response, only because this was a record. But that being said, that the third quarter is off to an excellent start. It's in line in keeping pace with the second quarter. I think Sam hit the nail on the head that later in the quarter, we'll have to keep a close eye on inventory. But at the moment, I think that we are well positioned to continue to produce these types of sales results going forward.

Brian Christopher Hollenden
Aegis Capital Corporation, Research Division

All right. And then what is the expected timing on delivery of the 2 development projects in Florida? And what led to the decision to buy development projects? And how do you -- how did the expected returns -- I guess can you talk a little bit about the returns and how they compare to your traditional acquisitions?

Copyright © 2021 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Samuel A. Landy
President, CEO & Director

So Sam here. I'm going to answer one aspect and turn it over to Brett. The prices of communities for sale, both 95% occupied, first-class communities and even the prices of turnaround has continued to rise. We believe we'll find more turnaround acquisitions and do more of those. We also believe that there's people buying communities that don't really understand the business. And eventually, that will provide opportunity for us to acquire more communities.

But looking at it, the real opportunity today is in development. If you build a site for $100,000 and earn more than $30,000 in sales profit, you're in the lot for $70,000 and you're going to get a strong return on that for the indefinite future. It's just going to continue on and you're going to get your rent increases. And it's going to be exactly as it has historically for people who built communities. They made a fortune doing it. They build their community. They realize sales profit that pays for construction of a lot. They collect the lot rent forever thereafter with 4% increases. And over a 20-year period, the return is phenomenal.

And so we see that in the development pipeline and building communities, whether we directly do it ourselves as we do in our expansions. And we're working on the Coxsackie 330-space community to be built, which would still not fully approved, but we continue to make progress. And Brett will give you more details on our joint venture potentials.

Brett Taft
VP & COO

Sure. So yes, on the delivery, first of all, the first property, 219 sites should be delivered at the end of this year or the beginning of next year. That property, we plan on hitting the ground running with a rental home program out of the box to generate immediate revenue and ultimately turn around and try and sell those homes after the fact.

But the increased infill rate because of the rentals should result in breakeven as compared to our cost after year 2 and a yield in the 5% range after year 3 and obviously growing every year after that. Sales profits only help with that equation.

If we were to go with a fewer sales model, the returns are going to be better over the long run, but they will take a little bit longer to get there. Our yields at the sales model will be in the 7% range after 7 years. And total return, including appreciation, will be around 70%.

So that's what we're going for here. And we think based on the markets we're looking at and the future of potential development deals, we can expect to find properties in similar locations where we can do this over and over again. And that's certainly the goal. The second property will be delivered at the end of 2023 -- or 2022, I'm sorry, next year. I'm a year ahead myself.

Brian Christopher Hollenden
Aegis Capital Corporation, Research Division

All right. And then last one for me. Can you talk about the current labor environment? Are you having issues finding and retaining labor?

Brett Taft
VP & COO

Yes, it's an issue on -- in every industry with -- that we've spoken, anybody involved in it. So main problem we see is on the maintenance side. It's driving increased wages, but we're paying wages for people with skills that should become long-term employees and help run those properties for years to come. We're getting through it. I mean we're properly staffed. The properties are running well. We certainly haven't had to give up any quality because we can't find good maintenance people. So it is an issue and it will remain an issue for a little while, but we'll get through it.

Operator

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

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

Copyright © 2021 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Another very strong same-store quarter. Can you comment on the operating expense side, just sort of a sense of what the increase was in taxes versus other property expenses? And are you expecting a pretty decent increase in property taxes later this year, just given the increased value of the portfolio?

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

On taxes, we've had small increases, but that's the normal increases. The major increase in taxes come from our rental homes because of -- again, we added so many rental homes over last year and this year.

On the expense side, we've stabilized our expenses pretty much. We do visit the community, so there was an increase in expenses there. We did have a weather-related additional expenses. So those are the things that really added to expenses this quarter as well as year-to-date.

Brett Taft
VP & COO

Just to add...

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

Got it. So I feel like -- go ahead, I'm sorry.

Brett Taft
VP & COO

No, I was going to say we did expect the expenses to increase over last year because of the things Anna mentioned. I think we had said expenses were expected to rise about 5%, and we came in at 6%. So we're really right in line with where we expected to be on the expense side.

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

I did want to add one thing. We did have an increase in our insurance rates too. Again, I think that was across the board for everybody because of what has been going on with COVID.

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

Got it. So it doesn't sound like that -- I feel like in years previously, you've had or sort of indicated that you might have a pretty meaningful increase in your property taxes, just given the rising values of the land. But it doesn't sound like that's what you're expecting here as we get into the back half of '21?

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

No, it seems like it's pretty stable right now. We have our normal increases. I've not seen anything come in that were other than that.

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

Got it. And I want to pivot and talk about the development pricing at about $105,000 a site. I know that when you look at the vacant land that you have for expansions, that's typically at a cost of closer to $70,000. Is there any way to push that any harder? Or is that really driven by the entitlement process?

Brett Taft
VP & COO

Do you want me to take that?

Samuel A. Landy

Copyright © 2021 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

President, CEO & Director

Yes, go ahead.

Brett Taft
VP & COO

Yes. So the pricing of $105,000 a site is all the way, including the pad for the home, which a lot of times you got to make sure you're talking about the same thing. So that is a fully approved developed site ready for home. It is more than what we talk about in our existing expansion land, which we typically say around $70,000 a site. It obviously varies depending on the topography of the land, clearing, entitlement process, legal that goes into it.

So while it's a little bit more than we could do with ourselves, we also have the benefit of getting sites that are ready to generate income immediately rather than buying land, going through the process, the cost of holding the land before it starts producing income. And the developers that are out there doing this are entitled to earn a profit on it, and that's where the pricing comes in where it is.

I do expect the ultimate enterprise to be a little bit lower than that as we go through the development plan and make some tweaks. But as it's contracted right now, we're at $105,000 a site.

Samuel A. Landy
President, CEO & Director

And then I'll just add, decades ago when a person built a manufactured home community, they recovered 100% of the cost of the lot from the sale of the home. And with the housing shortage being as bad as it is, us picking great locations, we don't know what the profit margin will be on the sale of those homes yet, but it does have the potential. $100,000 is not that much anymore today. And when you look at the finance cost of $100,000, if interest rates come down for the retail sale of manufactured homes, which we're working on, that could come down in half. If that comes down in half, a person makes the same monthly payment on buying $100,000 home in the future, it's a $50,000 house today, and there's a real possibility that could occur, which would mean we could recover 100% of the cost of the lot on the sale of the home.

And we're working with Fannie Mae, Freddie Mac. We're working with HUD. We're working with everybody to reduce what the retail customer pays in finance costs.

Eugene W. Landy
Founder & Chairman of the Board

May I add that we're trying to develop quality housing at an affordable price. I always tell the anecdote about asking a real estate broker, what do you get for $250,000 in a conventional home? And she replied, nothing you would want to live in. So our product is superior. It's quality, and we hope to sell it at a profit and still provide the customer with a very, very competitive worthwhile product to live in. As we point out, we are talking about 3 bedrooms, 2 baths and a really good product.

So -- but it's quite an undertaking. And it's easy to write numbers on a yellow piece of paper. It's easier to do our plans. You really need a great staff for people -- quality people to make this work. And it's a very ambitious project so that the execution is always difficult. And -- but we want to do it, and we're going devote the resources to do it, and we think we can bring in quality partners with us on this national need for affordable housing.

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

Got it. And just given the demand and sort of what you're looking at from an expansion perspective, do you anticipate having to open up any additional sales centers like you had to do over the past several years? Or are you pretty well setup as you see it today?

Samuel A. Landy
President, CEO & Director

The objective remains with our existing communities to do outside land home sales, which can incorporate -- if the community has the vacant land and the property on a highway, the ability to do a sales center. But it can also be done

Copyright © 2021 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

without a sales center, just by people coming in the office, going on the Internet, seeing what we have, and we could potentially do more land home deals at more locations.

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

Got it. And just one more for me. Can you remind us what the vesting period is for the Fannie Mae financing bonus and stock?

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

It's about 3 years.

Operator

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

Samuel A. Landy
President, CEO & Director

Thank you, operator. I want to thank our maintenance workers, our office workers, our managers, regional managers, Vice Presidents, Chief Operating Officer and the Chairman of our Board for leading us here to these incredible results. 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 November with our third quarter 2021 results. Thank you.

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 10157187. Thank you, and you can disconnect.

Copyright © 2021 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Copyright © 2021 by S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved.

These materials have been prepared solely for information purposes based upon information generally available to the public and from sources believed to be reliable. No content (including index data, ratings, credit-related analyses and data, research, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of S&P Global Market Intelligence or its affiliates (collectively, S&P Global). The Content shall not be used for any unlawful or unauthorized purposes. S&P Global and any third-party providers, (collectively S&P Global Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Global Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content. THE CONTENT IS PROVIDED ON "AS IS" BASIS. S&P GLOBAL PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Global Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages. S&P Global Market Intelligence's opinions, quotes and credit-related and other analyses are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P Global Market Intelligence may provide index data. Direct investment in an index is not possible. Exposure to an asset class represented by an index is available through investable instruments based on that index. S&P Global Market Intelligence assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P Global Market Intelligence does not act as a fiduciary or an investment advisor except where registered as such. S&P Global keeps certain activities of its divisions separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain divisions of S&P Global may have information that is not available to other S&P Global divisions. S&P Global has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P Global may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P Global reserves the right to disseminate its opinions and analyses. S&P Global's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P Global publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.
© 2021 S&P Global Market Intelligence.