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UMH Properties, Inc. NYSE:UMH

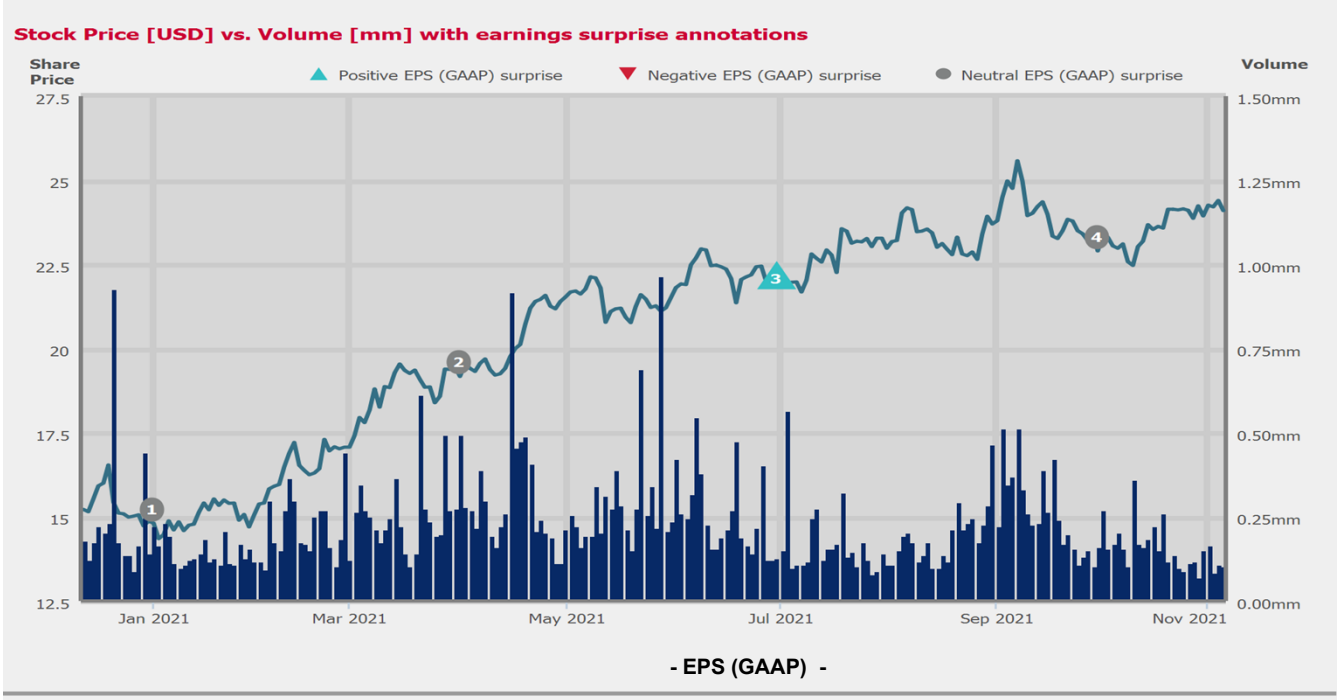
FQ3 2021 Earnings Call Transcripts

Thursday, November 04, 2021 2:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2021-			-FQ4 2021-	-FY 2021-	-FY 2022-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS (GAAP)	(0.03)	(0.07)	NM	(0.03)	0.25	NA
Revenue (mm)	49.96	48.03	▼ (3.86 %)	46.88	189.36	NA

Currency: USD
Consensus as of Nov-04-2021 12:54 PM GMT



- EPS (GAAP) -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2020	(0.08)	0.38	NM
FQ1 2021	(0.05)	0.16	NM
FQ2 2021	0.01	0.18	▲1 1700.00 %
FQ3 2021	(0.03)	(0.07)	NM

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Presentation

Operator

Good day, and welcome to the UMH Properties Third 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 third 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 third 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 cautionary 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 our third quarter earnings results. Normalized FFO for the third quarter was $0.23 per share as compared to $0.18 per share last year. This represents an increase of approximately 28% over the same quarter last year. For the first 9 months of the year, normalized FFO was $0.65, which is an increase of 30% over last year. This is the sixth quarter in a row that UMH has maintained or increased our normalized FFO per share.

Our business plan of acquiring value-add communities, making the necessary improvements and implementing aggressive rental sales and marketing programs has been extremely successful. Not only have we generated increased earnings for our shareholders, but we have also provided countless residents with high-quality, affordable housing that previously was not obtainable for them. And investing in UMH is an investment in providing affordable housing.

The results that we have reported quarter after quarter are starting to be recognized by the public markets. We have achieved an equity market cap of over $1 billion and growing. Our access to capital at attractive rates has never been better. This reduced cost of capital through both the equity and debt markets will allow us to drive additional FFO growth through investment internally and externally. It will also help us to redeem our outstanding $247 million of Series C 6.75% preferred stock in July of 2022 and $215 million of our Series D 6.375% preferred stock in January of 2023.

Reducing our cost of capital on these preferred series could result in additional $0.20 to $0.30 per share, depending on the percentages and rates of equity and debt utilized for the redemption. The redemption of our preferred stock, combined

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with our ability to continue to grow earnings organically and increase property values, positions UMH to outperform in the coming years.

Total income for the quarter increased 11% over last year to approximately $48 million. This increase was the result of an 11% increase in rental and related income and a 15% increase in sales of manufactured homes.

Our operating expense ratio improved to 41.8% from 44.7% last year. Our same-property results remained strong. For the quarter, same-property occupancy was up 190 basis points or 435 units over last year. Sequentially, same-property occupancy increased by 44 units. Same-property NOI increased 14.9% or $3.1 million as compared to the third quarter of 2020. Year-to-date, same-property NOI increased 14.7% or $8.9 million as compared to last year. This is the eighth quarter in a row that we have achieved double-digit same-property NOI growth.

During the quarter, we added 96 homes to our rental portfolio, bringing our total portfolio to approximately 8,700 rental homes. At quarter end, our rental home occupancy rate was 95.1%. 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. Home prices are up approximately 40% from pre-COVID levels. We are aggressively ordering inventory and have inventory being delivered throughout the portfolio. As our manufacturers open additional factories and increase production, we will be able to obtain more homes and fill sites at a pace that is in line with previous years.

Gross sales for the third quarter were $7.8 million, representing an increase of 15% over last year. Year-to-date, sales volume is at $21.8 million representing an increase of 45% over last year. Year-to-date, our income from sales is approximately $1.5 million as compared to $445,000 last year. We are happy to report that we have broken our annual sales record that was set last year of $20.3 million in just the first 3 quarters of this year. This year, we have sold a total of 294 homes, of which 153 were new home sales and 141 were used home sales. Our average sales price was $74,000 as compared to $60,000 in the prior year period.

We financed 61% of our home sales, and our portfolio now has a principal balance of $51.8 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 225 sites in 2021. In 2022, we plan on developing 400 to 600 additional lots.

We continue to seek acquisitions that meet our growth criteria. We have offers out on several communities, and we are working on building our pipeline. The acquisition market remains competitive. Prices of stabilized and value-add communities continue to increase, which has limited our recent acquisitions but increased the value of our existing portfolio.

We have decided that now is the time to build or buy new communities from developers. We have entered into contracts to purchase 3 all-age to be built communities in Florida. These communities will contain a total of 804 developed sites for a total purchase price of approximately $89.9 million. Construction of the first community is expected to be complete in the first quarter of 2022. This community will contain 219 sites and has a purchase price of approximately $23 million or $105,000 per site. The communities will be highly amenitized with clubhouses, pool, bocce ball, pickleball, splash pools, dog parks and more. We are working on additional development deals and anticipate growing our pipeline soon.

To help fund these acquisitions and negate the short-term impact development deals have on FFO, we are negotiating a joint venture with an institutional investor. A joint venture will allow us to do a higher volume of development deals.

We have built an irreplaceable platform that has delivered exceptional results time and time again. We have purchased and developed great communities, but even more importantly, we have created a great company with great people that can continue to achieve exceptional results for decades to come.

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

Anna T. Chew
VP, CFO & Director

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Thank you, Sam. Funds from operations, or FFO, was $10.8 million or $0.22 per diluted share for the third quarter of 2021 compared to $4.5 million or $0.11 per diluted share for the prior year period. Normalized FFO, which excludes certain nonrecurring items, was $11.1 million or $0.23 per diluted share for the third quarter of 2021 compared to $7.4 million or $0.18 per diluted share for the prior year period, an increase of 28% on a per-share basis. These increases were due to our strong operating performance and the redemption of our Series B preferred stock last year.

Rental and related income for the quarter was $40.2 million compared to $36.4 million a year ago, representing an increase of 11%. Community NOI increased by 16% for the quarter from $20.1 million in 2020 to $23.4 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 3.9%, and our monthly home rent increased 3.8%. Our average monthly site rent is now $474, and our average home rent is $811. Same-property occupancy increased 190 basis points or 435 occupied sites over last year. Same-property occupancy is now 87.3%, and same property rental home occupancy is 95.6%.

Sales of manufactured homes increased 15% for the quarter from $6.8 million in 2020 to $7.8 million in 2021. Our 15% increase in sales resulted in a sales gain of $611,000. Year-to-date, sales have improved 45% from $15 million last year to $21.8 million this year. Our sales gain for the year is at $1.5 billion as compared to $445,000 last year.

During the quarter, we continued to strengthen our already strong financial position. We entered into a new ATM program for our common stock and sold approximately 1.1 million shares of common stock at a weighted average price of $23.70 per share, generating gross proceeds of $26.2 million and net proceeds of $25.8 million after offering expenses. These proceeds will be used for general corporate purposes, which includes 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.

During the quarter, we also obtained a $6.1 million mortgage on our Holly Acres community. The interest rate on this mortgage is fixed at 3.21%. This mortgage matures on September 1, 2031, with principal repayments based on a 30-year amortization schedule. Proceeds from this mortgage were used to repay the existing $2.1 million mortgage, which had an interest rate of 6.5%. The refinancing of this community demonstrates the trapped equity within many of our encumbered properties. As we are able to refinance our communities, we will realize the value created by our business plan.

As we turn to our capital structure, at quarter end, we had approximately $507 million in debt, of which $467 million was community-level mortgage debt and $40 million was loans payable. 92% of our total debt is fixed rate. The weighted average interest rate on our mortgage debt was 3.79% at quarter end compared to 3.81% in the prior year. The weighted average maturity on our mortgage debt was 5.3 years compared to 6.3 years last year.

At quarter end, UMH had a total of $462 million in perpetual preferred equity. Our preferred stock, combined with an equity market capitalization of $1.1 billion and our $507 million in debt, results in a total market capitalization of approximately $2.1 billion at quarter end, representing an increase of 43% over the prior period.

From a credit standpoint, our net debt to total market capitalization was 20%. Our net debt less securities to total market capitalization was 16%. Our net debt to adjusted EBITDA was 4.8x. Our net debt less securities to adjusted EBITDA was 3.7x. Our interest coverage was 4.2x, and our fixed charge coverage was 1.7x.

From a liquidity standpoint, we ended the quarter with $82.4 million in cash and cash equivalents and $50 million available on our credit facility with an additional $50 million potentially available pursuant to an accordion feature. We also had $38.5 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 $103 million in our REIT securities portfolio that is currently unencumbered. The portfolio represents approximately 6.8% 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 $7.2 million of securities for a realized gain of $2.6 million. We plan on maintaining our securities portfolio at approximately $100 million.

We are working towards refinancing our 6.75% Series C preferred stock and our 6.375% Series D preferred stock, which comes due in July of 2022 and January of 2023, respectively. We plan to utilize a combination of equity and debt to

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drive significant earnings growth, which Sam highlighted earlier. We have already begun to position ourselves for this refinancing. We believe we can achieve savings of 200 to 300 basis points. The incremental FFO from this refinancing, as well as the continued organic growth in earnings, positions the company to prosper for years to come.

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

Eugene W. Landy
Founder & Chairman of the Board

UMH's basic business of providing quality, affordable housing has never been better. Our strategy of acquiring value-add communities below replacement cost with vacancies and rehabilitating them could not have been better timed. Since 2010, we have purchased 99 communities containing 17,200 sites with a blended occupancy rate of 75%. These vacant sites that were acquired provide us with a runway for future occupancy and revenue growth.

As we previously mentioned, turnaround acquisitions take 2 to 3 years to come online before they start to positively contribute to earnings. The capital improvements, good management and the investment in new housing stock has allowed us to drive best-in-class same-property occupancy and NOI performance. We still have 3,300 vacant sites within our existing portfolio to fill and 1,800 vacant acres that can potentially be developed into approximately 7,300 new home sites. These vacant sites and expansion sites may provide us with a runway to continue to produce similar same-property results moving forward.

In addition to the anticipated improvement in earnings from our operations, we are working on our strategy to redeem and replace our outstanding preferred series with lower-cost equity and debt. The reduced cost of capital could drive earnings growth in the $0.20 to $0.30 per-share range.

The future is bright for UMH, but our nation faces an affordable housing crisis. We continue to focus on our social mission of providing the nation with quality, affordable housing. Our elected representatives on both sides of the aisle recognize the problem that developers have in providing this housing. We are working with local state and federal officials, as well as the Manufacturing Housing Institute (sic) [Manufactured Housing Institute], to help spread the message that manufactured housing is the best way to provide unsubsidized quality, affordable housing. The current administration has been very supportive of building new manufactured housing communities, and we expect to see additional development opportunities as the zoning barriers are addressed.

We want developers and realtors to know they can earn significant profits finding us manufactured home community development projects throughout the country. We believe developers can contract land, engineer a quality community, obtain full approvals and then sell it to us and earn approximately $10,000 per approved site depending on the market. We believe getting this message out could make us the fastest-growing provider of communities containing a combination of resident-owned and resident-rented manufactured homes in the country.

We also expect more favorable financing for our residents, giving them the ability to finance and refinance their homes. Down payment assistance programs currently being contemplated by the federal government should make manufactured housing a realistic housing alternative for the underserved portion of our population. We are committed to playing a crucial role in solving the affordable housing crisis. Those who seek investments with worthy social goals should consider our company.
We would now be happy to take your questions.

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Question and Answer

Operator

[Operator Instructions] The first question comes from Rob Stevenson with Janney.

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

Sam, I know you want to be reasonable on renewals with tenants. But on new leases, how are you thinking about pricing? When you look at the apartment REITs, most of those guys are up double digits on new leases these days, even the ones that didn't get hammered in 2020. How are you sort of factoring that in as you guys go through pricing on new leases?

Samuel A. Landy
President, CEO & Director

Well, as you know, when we began this, manufactured homes and manufactured home communities had an image problem. And by being very moderate on our rent increases, just 4% per year, we have dramatically improved the word-of-mouth pertaining to manufactured home communities, at least those managed and operated by UMH Properties. So for existing residents, people who live in homes that they own or homes that they rent from us, we are shooting for a 4% rent increase. And I want to go over something just for a second before I answer the rest of that.

When you look at real estate and real estate companies, the reason people left shopping malls and other forms of real estate is the Internet made shopping more competitive elsewhere. I think that the problem with real estate companies is people were not operators. They weren't running a business. A business person tries to reduce expenses and increase the value the customer receives for the product. And that's our mission, and that's our goal. So existing residents, to the extent we can control it, will only receive a 4% rent increase. To the extent inflation makes us go above that, we have the pricing power to go above that. Now there's a difference between existing residents and new residents.

On new residents, somebody buying a new home and renting a site from us from the first time, we can put that rent to whatever the market will bear which may, in fact, be a 10%, 15% increase over existing, and the same goes on rental homes. But for existing residents, our goal and our job is to keep rents as low as possible. And our goal there, we want 50% expense ratio if residents pay water and sewer and 30% expense ratio if it's separately metered.

So if we can achieve those goals, that's as efficiently as a community can operate, and you'll be there when you hit 90%-plus occupancy, and that's our goal, but our goal is to do it without raising rents more than approximately 4% for existing residents.

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

Do you guys track same-store new lease growth on a quarterly basis? Do you have that number, if you do?

Brett Taft
VP & COO

We don't have it in front of us, but it's something that we are starting to look into now, and we'll come back to you another time with the answer there.

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

Okay. And then, Sam, can you talk about home sales demand versus ability to get the homes? I mean, you guys did a good amount this quarter, but how much more homes could you have sold if you had access to more inventory? Is it substantial? Or are you selling about what you would, even if the inventory wasn't constrained?

Samuel A. Landy
President, CEO & Director

My belief is it's substantial. Look, Brett has the exact numbers, so go ahead.

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Brett Taft
VP & COO

Yes. No. Absolutely. Our home sales numbers, first of all, we're very happy with that. They were up 15% on the quarter and were up 45% on the year. Looking at our second quarter numbers, we had a lot of inventory in place set up and ready to be sold, which is what allowed us in the second quarter to drive I think it was 91% sales growth.

So in speaking with all of our salespeople and looking at the market and looking at the finance applications in place, we do have a lot of deals pending, and we do expect to produce similar sales growth. But it's the same thing on the rental end. Same-property occupancy was up 190 basis points or 435 units year-over-year. We were getting used to it being up 280 to 320 basis points and up 690 to 780 as of year-end. So we are aggressively ordering homes. We do think that we have a lot of inventory that will land in the fourth quarter, in the first half of next year to allow us to produce similar results, but we're certainly inventory constrained.

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

If you order a home today, how long is it taking for you guys to get it in on the site?

Brett Taft
VP & COO

It depends on the market and the manufacturer it's coming from but anywhere from 6 to 12 months.

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

Okay. So you guys are almost at this point ordering for 2023?

Brett Taft
VP & COO

We are having those discussions as we speak, yes.

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

Okay. And then last one for me. Anna, given your commentary about the -- looking to replace the preferred, how far in advance are you willing to put in replacement financing there and sort of carry those sort of double sort of hit for some period of time in terms of twice the financing? I mean, would you do it 6 months early and carry the additional financing for that 6 months if the rates on both equity and debt are advantageous? Is it going to be sort of more within 3 months? How do you think about that, the dilution?

Anna T. Chew
VP, CFO & Director

6 months is great -- right. 6 months is great because we do not believe the dilution is very much. We have calculated it. I don't have it in front of me, but we've already started. That's why we had our ATM open. We've already raised quite a bit of money on our ATM. We have cash available. We have cleared a lot of our bank lines. We have availability on our rental home line, on our notes receivable line. And if we need to, we can also tap into our securities portfolio.

Operator

The next question comes from Keegan Carl with Berenberg.

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

I know you touched on it a little bit earlier, but can you just give us some more color on the acquisition pipeline going forward? Just kind of to reiterate -- just kind of on low volume this year, is it truly a function of pricing? Or is there just not as much out there that you guys think fits your portfolio at the moment?

Samuel A. Landy

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President, CEO & Director

Brett's going to be more specific, but we try to be very opportunistic as to acquisitions. And to the extent you try to make them happen, they become overpriced. When you have a willing buyer and a willing seller, the price can be the right amount. But right now, there's far more buyers than sellers, and it creates issues. But go ahead, Brett.

Brett Taft
VP & COO

No. I think Sam hit the nail on the head there. We are absolutely looking for existing acquisitions. We do have an offer out and are negotiating a contract. I can't really touch on that too much more at the moment. I think earlier in the year, we gave acquisition guidance of $25 million to $50 million in value-add and stabilized deals. We're going to come up just short of that, most likely this year, but we're happy with the $18.3 million we were able to get. We're growing the portfolio in the areas we want to. We're seeing good performance there.

And talking about the pricing a little bit, as Sam mentioned, there are so many buyers. And there are deals available, but because of how many people are coming into the market, these cap rates are compressing to points where we look at the cost per site, we look at the improvements we need to make, we look at the management, the payroll, the R&M that needs to go into these properties to turn them into UMH quality communities, and we just don't think that, in most cases, the returns are there.

So we're looking at that and comparing it to some of the opportunities we're seeing on the development front, and we're thinking that we are really liking what we're seeing there. And the returns are penciling out to where we want them to be. They will be coming online and accretive in similar time lines as the value-added acquisitions. And we will, at the end of the infill process, have a brand-new property, with brand-new infrastructure, brand-new homes versus what we see on the value-add front. So if the opportunities are available. And again, I do think we still will do some value-added acquisitions. We will absolutely do them, but we're finding quite a bit on the development side as well.

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

Got it. Just kind of on that front, based on what you're seeing, how many new greenfield development opportunities are you guys seeing out there? And is it typically weighted towards the Southern states?

Samuel A. Landy
President, CEO & Director

Well, so it's a limited number. Yes, it's in the Southern state, but the message that I think we put out very well in our prepared remarks, and we're working with MHI and everybody else to get the message out. Developers haven't thought about building manufactured home communities because so few have been built. And in any market, you could determine what acreage should cost. You know what the engineering should cost, and we are telling developers, "Go -- you, developer, go contract that land, do the engineering, get the full approvals, and we'll pay you a $10,000 per lot profit to buy it from you fully approved." So on 250 lots, they can make $2.5 million. We got that message out in the South and Florida about 3 years ago. And now, we are contracted to purchase 3 separate to-be-built communities.

So as we get that message out and people listen to us and realize that they could make that money at the approval stage or they can build it and make additional funds for building it and selling it to us at that stage, we see it as the system is jammed up. Nobody has tried to build communities in 20 years. We get this message out. People will try to build communities, and we're here as a buyer. So we don't know how well it will do. But we think there's 50 states, and we have 40 more states to get into, and this will provide the opportunity to get there.

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

Got it. Just one final one for me. Just bigger picture, could you give us some more color on the White House's proposed affordable housing plan? Where do you guys see yourself fitting in? And then I guess how do the additional opportunities from this proposal, how do they fit relative to previous administrations?

Eugene W. Landy
Founder & Chairman of the Board

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We're very excited. This is Gene Landy, Chairman. We're very excited about what's being proposed. And there are various items that are coming, and we hope they get adopted. One is for the people who can't afford a down payment and don't have a relative or rich uncle, they have been put out -- they have been taken out of the housing market. And while there are other classes of people have benefited from the rising home prices, they've been just taken out of the system. And both parties are proposing, both the Republicans and Democrats proposing an assistance. One bill in the Senate, I think it's $15,000 a person, first-time homebuyer, never bought a home before that they provide $15,000. Another bill is for $25,000. I can't say they will be passed, but we're hoping they will be passed.

And we know how many thousands of people we turned down because they don't have the down payment. People have enough trouble paying the $800 rent, plus the $800 security, and they don't have the $1,600. To have the government propose a program to lend them $15,000 or $25,000 will have immediate and immense effect on the demand for manufactured housing, and we hope these bills pass. And there were other -- the government, this is a crisis, and we don't use the term lightly. You need 4 million, 5 million, 6 million more homes. You have to build not 100,000 homes a year, we need to build 200,000 homes a year. The industry needs to build at least 500 new communities of 200 homes a piece. That's 100,000 homes, and that's a drop in the bucket as compared to the need for housing, which is immense. And the shortage is there. And the home prices reflect that they go up 20% in 1 year because the demand exceeds the supply. So the government is behind any steps that will help solve that problem.

And I have to give my son, Sam Landy, a lot of credit, a lot of credit to the staff. We've been spending a lot of time with governors, secretaries of housing, senators. And the Manufacturing Housing Institute (sic) [Manufactured Housing Institute] is working on this, and we think there's going to be a positive response. And for the next 20 years, we hope that the nation turns to manufactured housing to alleviate the crisis in affordable housing.

Operator

The next question comes from Craig Kucera with B. Riley.

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

Yes. Sam, for years, you put in 800 to 900 homes -- rental homes into your communities and obviously having some challenges with inventory today. But given the visibility of what you're ordering well into next year, can you give us some color on what you expect to do here in '21? And maybe sort of what your expectations are for '22, another year that's maybe light of 800 or any thoughts there would be helpful.

Samuel A. Landy
President, CEO & Director

So 2021, we wanted to add 900 rental homes and sell 200 new homes. We're going to be short of our goal because of the unavailability of housing, but I don't believe it's going to affect the numbers because the pent-up inventory that we had from a year ago, the inventory that was being set up, et cetera, will allow us to have adequate sales and adequate rental unit growth in 2021. And as you can see, we're at the end of the third quarter, and our numbers have not been negatively affected.

The winter season is generally the manufacturer's slowest season, so they have the opportunity to catch up. And so if they didn't catch up, we could have a real problem in the first and second quarter of 2022. But I expect they're going to catch up a bit so that, in 2022, we will get back to the ability to add 900 rental homes and 200 new home sales. And so we could have done even better this year. Possibly, whatever we do in the first quarter of next year, we could have done better if we had more homes, but I don't think it's going to negatively impact us.

Brett Taft
VP & COO

Yes. And just to add a little bit as to what the inventory looks like right now, we've got 208 homes that are on site in various stage of setup. Those homes, assuming they should fill during the fourth quarter, during the first quarter of next year. We've got 430 additional homes that were ordered prior to June of this year. I mentioned earlier that [indiscernible] we're seeing are 6 to 12 months, so those homes are starting to arrive and should arrive throughout the first quarter of next year, giving us a good pipeline of homes to continue to drive reasonable same-store occupancy growth.

Craig Gerald Kucera

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B. Riley Securities, Inc., Research Division

Got it. No, I appreciate that. Switching gears, you mentioned that you were looking to buy 3 communities at -- for about $90 million. One is going to be completed in the first quarter. But can you talk about the others? Are those expected to be constructed at some point in 2022? Or are those further out in the future?

Brett Taft
VP & COO

Yes. So the other 2 are expected to be delivered in the fourth quarter of 2022. It is development, and there are a lot of moving parts, so I can't absolutely guarantee that. But the current plan is to have them opening at the beginning of the fourth quarter. And if anything changes, we'll keep you posted.

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

Got it. And given that these are brand-new communities, are you thinking that you're going to continue to have them renew at 4% increases? Or is there a thought to maybe pushing that a little harder because they are newer than what you typically have at your value-add communities?

Samuel A. Landy
President, CEO & Director

Newer -- new communities, pricing is completely different than anything we currently own. Number one, all the infrastructure is brand new, lots of brand-new clubhouse amenities. So new communities, the pricing -- and my conclusion is that at any company, the person who does the pricing is one of the most important people at the company. We will do plenty of market studies to make sure that using manufactured homes and manufactured home communities makes us the lowest-cost producer of quality housing, but we will not be lower than the market will bear.

So we will very carefully evaluate how many dollars can be earned in the sales profit and where the rents should be to achieve those percentage operating incomes we spoke about. And everything we looked at in terms of the very limited number of communities being built in the country and what homes are selling for, manufactured homes can be over $200,000 in new developments in the country. And lot rents in these new developments like before off to, say, $600, $700 a month.

Brett Taft
VP & COO

You're right in line with what we're projecting here, so yes.

Samuel A. Landy
President, CEO & Director

So it's based on what the market would bear, as well as knowing we're the lowest-cost producer.

Operator

The next question comes from Henry Coffey with Wedbush.

Henry Joseph Coffey
Wedbush Securities Inc., Research Division

I know you'd put it out there, but these 3 communities represent how many sites?

Brett Taft
VP & COO

804 total sites. The first one to be delivered in December, January, I should say the first quarter of next year, is 219 sites.

Henry Joseph Coffey
Wedbush Securities Inc., Research Division

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And the sort of rent up cycle and the JV how do those work -- how does that work? Is it the JV is going to hold the assets till the rental cycle is completed? Or how does that play out?

Brett Taft
VP & COO

Yes. so -- yes. I've got to be a little bit careful because the JV agreement isn't signed yet, but we are working on it. We will -- the JV will fill the properties. There will be a hold period at certain times throughout. There are triggers that UMH could either buy it or it could be sold to the open market. But without going into too much detail, that's the basic strategy. The JV and us being the managing partner will be responsible for the infill of the project.

Samuel A. Landy
President, CEO & Director

I'll just add to that. So the problem with development is you have incredible capital costs that do not earn money when you begin, and that could be a 3-, 5-, 7-year period, right? So your incredible capital cost costs you money. Filling the community costs you money. No developer makes money on the first phase. You make money on the later phases. With that in mind, by going to a joint venture development, you reduce the capital we're tying up. We collect immediate management fees for operating it, as well as assets under management. So you turn a negative into a positive. It immediately provides FFO. Whereas if you did it yourself, it would not provide FFO. And then you're adding value for both yourself and your joint venture partner that you'll capitalize on.

So we're very excited about the concept, and it does give us that ability. Again, we see ourselves as all of America's great companies: Walmart, Burger King, McDonald's, Dunkin' Donuts. We have a great product that people want, and now we have to bring it to all 50 states. And the joint venture provides us the opportunity to do that.

Henry Joseph Coffey
Wedbush Securities Inc., Research Division

Now just kind of continuing on those sorts of themes, the -- some of the residential mortgage broker -- bankers we work with have begun providing to their brokers basically manufactured housing finance, direct finance. Developing programs, they've all seemed to be coming to life just this year. How would the availability of that sort of financing -- of agency GSE financing, the same thing we all get, how would that change the equation for your residents and for your own approach to financing acquisitions?

Samuel A. Landy
President, CEO & Director

Yes. So the lower our cost housing is the higher the demand, so reducing the interest rate that people pay increases demand. The government is working on or they need to work on 2 things. One is zoning barriers; and two, the cost of financing for manufactured homes. And they are working on both issues. UMH began financing manufactured homes in 2001, was extremely successful at it and has always charged a lower rate than anybody else on our financing.

The various laws enacted in 2009 prevent us from financing many of the people who would benefit by owning their house, but they can't be financed because they don't meet debt-to-income requirements. They don't have adequate reportable income, and they may have poor credit from being foreclosed out of a $300,000, $400,000 house, and now they're moving into a $70,000 house. So the laws make all of those people unfinanceable which is why we rent 9 homes for every 1 we sell. But any improvements in the financing are good for the industry and good for our residents.

Henry Joseph Coffey
Wedbush Securities Inc., Research Division

And then you mentioned -- and would that change your own approach? I know you're basically financing your own -- your residents right now. Would you move that -- take those assets and move them over to the agencies? Or what is your thought process there?

Samuel A. Landy
President, CEO & Director

Well, to the extent the agencies become significantly less expensive than our lending, our loans become saleable. They can be securitized and sold. They can be sold as is or they can be -- the resident's loan can be refinanced. So we'd be

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open to all of those things. Our purpose, again, keep communities at 95%-plus occupancy at the expense ratios we've talked about, and lower finance costs will do that for us.

Henry Joseph Coffey
Wedbush Securities Inc., Research Division

And then just kind of related to that topic, you did give us one example of how you've been able to tap the hidden value in your properties with refinancings, how much of that potential refinance will play into the redemption of the preferred?

Anna T. Chew
VP, CFO & Director

We have, coming up in 2022 and 2023, approximately $100 million in mortgage debt. We believe that we will be able to refinance that for over $200 million and take out about $100 million of trapped equity.

Samuel A. Landy
President, CEO & Director

And what Anna is talking about is strictly on the property level. We also have our 8,700 rental homes that we paid cash for, and we are working every day with the GSEs and with banks to get them to directly lend on those houses. If that occurs, that's significant money. I mean, start imagining 8,700 times $70,000. And we can get that financing from the houses directly. So we haven't jumped that hurdle yet, but we work on it every day.

Henry Joseph Coffey
Wedbush Securities Inc., Research Division

What is their resistance? What is the primary resistance point?

Samuel A. Landy
President, CEO & Director

So in the beginning, and I'm going back 5-plus years, they said it's too difficult to track the collateral. If you have a community of 250 homes and we own 125 of those homes, how is the government-sponsored entity going to know which ones they have the loan on and which ones they don't. And that's when we came to the conclusion, look, we'll do Memphis Blues as an all-rental community, and you can do the mortgage on the land and the home at the same time, lend us on both the land and the home at the GSE rates. And we've had very, very positive feedback on that. And once we receive 95% occupancy of Memphis Blues, which will probably happen in the next 18 months and the income is proper, we will do that deal, and it will be the first one.

And then you go to -- while we were working on that, we said to them, "Look, you've allowed 60% rental homes in the community. With technology being what it is, you can stick a computer chip on a home and you can track it. Why can't you finance a mixed-use community?" And we've achieved that with private banks at very reasonable rates, and we may achieve that with the GSEs, and we're very close to achieving it. And that's where we are today.

Operator

[Operator Instructions] The next question comes from Brian Hollenden with Aegis Capital.

Brian Christopher Hollenden
Aegis Capital Corporation, Research Division

On the residential development deals in Florida, at $105,000 per pad, what returns on capital are you guys expecting?

Brett Taft
VP & COO

Yes. So we are looking at returns, including sales profits, in the 6% to 7% range, basically taking the sales profit and backing it off of the $105,000 cost per site. If you leave the $105,000 site in there, our yields, once stabilized, they're going to be in the 4.5% to 5.5% range, depending on the property and the infill rate. We are also 7 years looking at IRRs unlevered in excess of 7.5%.

Samuel A. Landy

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President, CEO & Director

And keep in mind, the history of manufactured home communities is the individual -- people built communities and sold the home to pay for the lot and then collected the lot rent forever thereafter. So in the 1970s, '80s, it was typical to build a community and sell your home with the profits of that sale going to pay for the lot. Because there were all the various downturns in housing that hasn't occurred in many years that anyone 100% paid for the lot from the sale. But looking at things today, I don't find $105,000 as an impossible profit margin on manufactured homes in Florida. So the potential exists that you could earn 100% of the cost to build a lot from the sale. So whether it's 100%, 50%, 30%, I don't know. It depends on the market at the time you're trying to sell the houses, but it's all doable.

Brian Christopher Hollenden
Aegis Capital Corporation, Research Division

It kind of leads to the follow-up. I guess how many homes within the new developments are you kind of underwriting that you think will be owned versus lots that will become rentals?

Samuel A. Landy
President, CEO & Director

We also don't know the answer to that question because our objective is to go fast on cash flow, right? You don't want to have 50 lots sitting there without activity occurring quickly. So whatever it takes to get that activity going quickly, whether it's renting the homes or selling the homes, that's what we're going to do. And we don't know the answer to that question yet. We will be marketing them for both sale or rent. But whether we do sale or rental, it's going to provide an adequate return.

Brett Taft
VP & COO

Exactly. And the yield ranges I gave you were basically the difference between sale and rent.

Brian Christopher Hollenden
Aegis Capital Corporation, Research Division

Got it. And then last one for me. Over the last 12 months across all your properties, how many new lots have been developed and rented from your vacant acreage? How confident are you that some portion of your 1,800 vacant acres can be developed and rented?

Brett Taft
VP & COO

Yes, sure. So this year, we completed the development of 225 sites. We're happy to report that they're selling homes. They're filling sites quickly. Again, the main problem is if we had more homes, we'd fill more sites at a more rapid pace, but we're earning adequate sales profits at those locations. And for 2022, we are projecting 400 to 600 units. We think that 400 is very achievable. We could get to 600 depending on whether or not we can obtain some lender approvals to do the development. The 400 sites we're looking at in 2022, 5 of those communities and 253 sites are in Ohio; 1 is in Maryland, about 70 sites; 1 is in Tennessee, 76 sites; and 1 is in Indiana -- or Pennsylvania, and that's 35 sites.

Samuel A. Landy
President, CEO & Director

We have very successfully built lots in the past. We have Craig Koster, our attorney. We have Jeff Yorick, an engineer who has an assistant engineer, Alan Patterson. So we have 3 professionals on staff to work with outside developers, work with outside engineers, outside attorneys. We also use the services of Don Westfall, who's built more manufactured home communities than anyone in the country. So we have a very significant team to get approvals and build sites.

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

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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 February with our fourth quarter and year-end 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 10159917.
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