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UMH Properties, Inc. NYSE:UMH

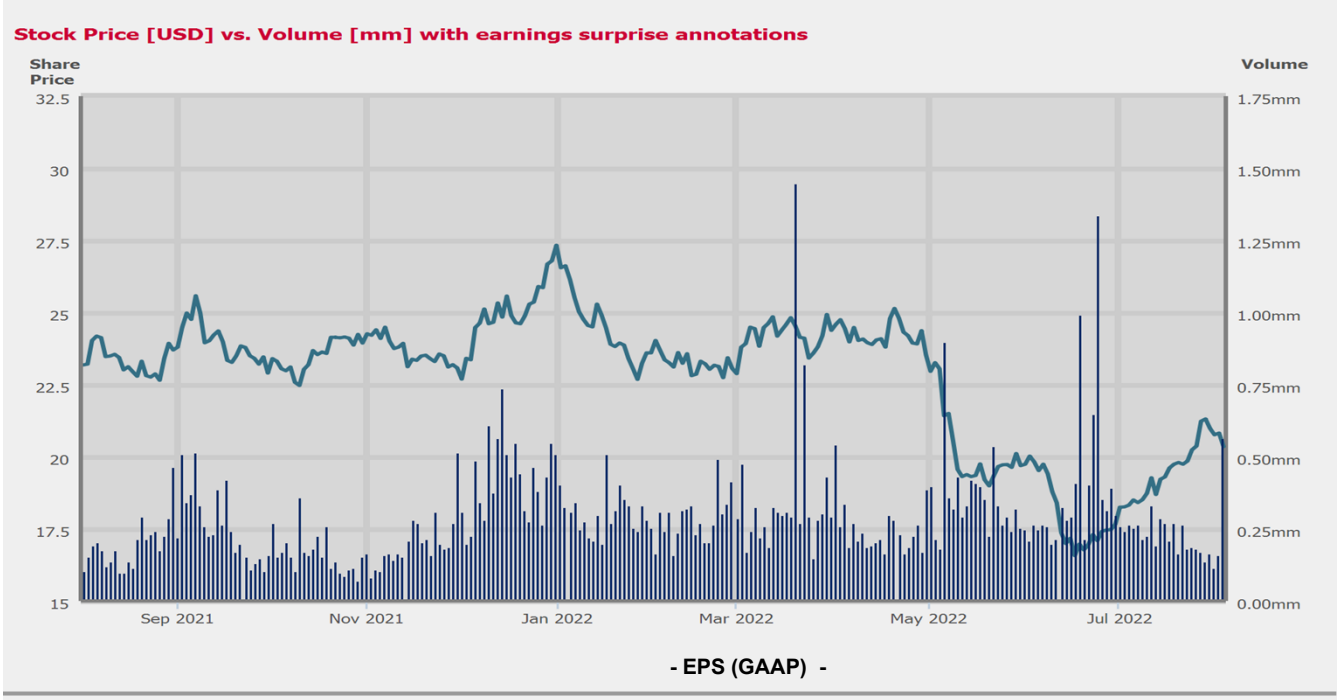
FQ2 2022 Earnings Call Transcripts

Thursday, August 04, 2022 2:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2022-			-FQ3 2022-	-FY 2022-	-FY 2023-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS (GAAP)	(0.03)	(0.41)	NM	0.00	(0.47)	NA
Revenue (mm)	50.86	49.22	(3.22 %)	50.56	198.92	NA

Currency: USD
Consensus as of Aug-04-2022 8:25 PM GMT



- EPS (GAAP) -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2021	(0.03)	(0.07)	NM
FQ4 2021	(0.02)	0.17	NM
FQ1 2022	(0.03)	(0.09)	NM
FQ2 2022	(0.03)	(0.41)	NM

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Call Participants

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Founder & Chairman of the Board

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Samuel A. Landy
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Presentation

Operator

Good morning, and welcome to the UMH Properties Second Quarter 2022 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. 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. The forward-looking statements that we make on this call are based on our current expectations and involve various risks and uncertainties. Although the company believes 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 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'd 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. UMH continues to execute on our long-term business plan, which has resulted in meaningful value creation, a growing dividend and much-needed quality affordable housing in our markets. We have acquired value-add communities in strong geographic locations and made the required improvements to provide the high-quality affordable housing that our residents desire and deserve.

Our improvements result in increased occupancy, revenue and ultimately, property value. As the community operating results improve and the property values increase, we are able to refinance at lower rates, effectively reducing our cost of capital. The success of this business plan is apparent through the recent recapitalization of our Series C preferred stock. We expect this recapitalization to increase FFO by approximately $0.12 per share on an annual basis.

Our second quarter normalized FFO was $0.16 per share as compared to $0.22 per share last year. The decreased FFO per share is the direct result of the capital raised to fund the preferred redemption. Adding back the $4.2 million quarterly preferred dividend to normalized FFO results in FFO of approximately $0.23 per share or $0.92 per share on an annual basis.

We look forward to the second half of the year when the effect of the recapitalization will be apparent in our quarterly results. We are pleased that our hard work over the past few years has resulted in a well-covered growing dividend. Post redemption, our payout ratio is approximately 87%. We have increased our dividend 2 consecutive years, and we remain on track for additional dividend increases in the future.

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Moving on to operations. Our properties continue to perform well. Our communities are reporting excellent demand for both sales and rentals. Same-property rental and related income increased 6.2% and expenses increased 8.3%, resulting in NOI growth of 4.8%.

Our community operating results are consistent with what we experienced during the first quarter. Last year's backlogs are still impacting our operations as we depleted our rental and sales inventory and are in the process of installing new homes for rent and for sale. We have over 500 new homes in our communities in various stages of setup. We have several hundred additional homes that should be delivered over the next few months. As we are able to set up and fill these units, we anticipate occupancy and revenue growth throughout the remainder of the year.

During the quarter, we added 99 new rental homes to our portfolio as compared to 134 last year. Year-to-date, we have added 151 homes to our portfolio as compared to 352 last year. Our rental home occupancy rates remained strong at 94.6%. The rental home program has been and will continue to be a critical component of our success.

Generally, we would expect to add 800 rental homes per year. Year-over-year, we added 253 rental homes to our portfolio. The difference of 547 homes would generate an additional $1.5 million of income for the quarter and drive income growth of 10% and NOI growth of 11% with the same expense increase.

We can achieve high single or low double-digit same-property NOI growth through the infill of our vacant sites. It is for this reason that our policy is to not aggressively raise rents on our existing customers. However, as we re-lease units, we do achieve higher rent increases.

For the quarter, we have achieved 7% average increases on re-leased units. Sales for the quarter were down 27%. This is also related to the lack of available inventory. As we are able to obtain additional inventory from our manufacturers, we anticipate our sales to grow in line with last year's results.

While gross sales volume was down, our gross sales profit increased to 31% from 27% last year. During the quarter, we generated sales income of $943,000. The average sales price for the quarter was $81,000 as compared to $80,000 last year. We financed 63% of our home sales. We have a strong pipeline of pending sales and anticipate continued sales profit growth throughout the remainder of the year and into next year.

Our expansions are progressing as expected. We have approximately 400 sites under construction at 8 communities. These are generally strong sales locations and should help us to drive additional sales and income growth in the future. We remain on track to deliver approximately 400 sites annually for the next several years. Year-to-date, including our $21 million acquisition in July, we have closed on 4 communities containing 718 sites for a total purchase price of $38 million. These are value-add communities that will benefit as we implement our proven business plan.

Two of the communities are located in Western Pennsylvania, one is in Michigan and the other is in Alabama. We continue to seek additional acquisition opportunities that meet our growth criteria. Interest rates have increased, but cap rates for manufactured housing communities remain aggressive and in many cases, have negative in-place spreads. UMH is proud to announce that we have invested a proportion of our gain from the Monmouth Real Estate investment transaction into the UMH qualified opportunity zone fund or QOZF. The QOZF is designed to acquire value-add communities in opportunity zones that are not accretive to earnings in the short term. In order for an investment to qualify, it must be located in an opportunity zone and 90% of the value of the existing buildings and improvements must be invested in the property. The goals of the QOZF are for UMH to earn management fees, asset management fees and have the first right to purchase the communities upon a sale.

It is similar to our joint venture with Nuveen Real Estate and should result in reasonable fee income and a future pipeline of accretive investment opportunities. We anticipate the QOZF closing on its first acquisition in the very near future. Additionally, the QOZF has 2 development deals under contract for a total of $25.9 million. UMH has proposed an amendment to the Tax Cuts and Jobs Act of 2017 that could potentially increase the supply of affordable housing in opportunity zones through manufactured housing.

We have made substantial progress implementing our business plan at Sebring Square, the first community acquired through our joint venture. We have strong traffic for sales and rentals and the prices are exceeding our expectations. We are selling new homes for over $170,000 and renting homes for over $1,700 per month. We are encouraged by our progress and look forward to opening additional communities soon.

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We have also made considerable progress building a pipeline of development deals for our joint venture with Nuveen. We currently have 2 communities to be developed under contract containing 585 sites for a total purchase price of approximately $68.5 million. These communities are both located in Florida and will be delivered fully constructed and ready for homes.

Construction of one of the communities has commenced, and we are anticipating a quarter 1 2023 closing. Construction of the other community is expected to begin later this year and will likely close in the second half of 2023. Additionally, we have 3 land deals under contract that will be delivered and titled for 423 sites in Florida, Georgia and Pennsylvania. We will acquire these communities entitled but unimproved and manage the development process. The aggregate purchase price for the land and entitlements is $16.5 million.

Construction at these communities is expected to be approximately $16 million. The joint venture structure will result in a lower basis and higher overall returns. In total, the joint venture has a pipeline of 1,008 sites for a total investment in land and improvements of $101 million. We are pleased to have been able to generate this pipeline in a relatively short period of time.

In June, UMH intended and sponsored the MHI Homes on the Hill event, which was part of the Innovative Housing Showcase. We set up a home on the National Mall to showcase the high-quality affordable housing that we provide to our residents through manufactured housing. The event was well attended by the public and government officials. I would like to thank our wonderful staff for all of their efforts in making this event a success. We have a great team of qualified professionals that work every day to advance the interest of UMH and our industry.

The story for UMH remains the same. Our basic business of operating manufactured housing communities remains fundamentally sound. The recapitalization of our 6.75% Series C preferred stock should result in a significant increase in normalized FFO. If market conditions allow, we can also redeem our $215 million 6.375% Series D perpetual preferred stock. Additionally, we have 3,600 vacant sites within our existing portfolio and 1,900 vacant acres that can be developed into approximately 7,600 homesites that will allow us to drive organic earnings growth as demand dictates.

We have external growth opportunities through the acquisition of existing communities through investment in our QOZF and the investment in our joint venture with Nuveen. As always, UMH remains a conservative steward of capital. We look forward to generating additional value and income for our shareholders.

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. Normalized FFO, which excludes nonrecurring items, was $8.7 million or $0.16 per diluted share for the second quarter of 2022 compared to $10.3 million or $0.22 per diluted share for 2021. As we had previously announced on July 26, 2022, we redeemed all 9.9 million shares of our 6.75% Series C perpetual preferred stock for a total of $247 million. This redemption was completed by utilizing funds raised through our common ATM, our Israeli bond offering and mortgage debt. The redemption is expected to increase normalized FFO by approximately $0.12 per share annually.

Adding back the preferred dividend to the second quarter, normalized FFO per share would have been $0.23 for the quarter or $0.92 annually. Additionally, if market conditions allow, we can redeem our $215 million 6.375% Series D perpetual preferred stock. It is perpetual preferred so the redemption is at our option. We will analyze the market and the cost of our capital as the January 2023 redemption date approaches and determine if the redemption is in the best interest of the company and our shareholders.

Rental and related income for the quarter was $42.2 million compared to $39.3 million a year ago, representing an increase of 7%. This increase was primarily due to community acquisitions, the addition of rental homes and the growth in occupancy. Community NOI increased by 5% for the quarter from $22.3 million in 2021 to $23.3 million in 2022. Sales of manufactured homes for the quarter decreased 27% from $9.6 million in 2021 to $7 million this year. Our average sales price was $81,000 with new home sales averaging $128,000 and used homes averaging $54,000. The gross profit percentage was 31% this year compared to 27% a year ago. Sales profitability was $943,000 in net profit this quarter compared to $1.2 million a year ago.

As we turn to our capital structure, at quarter end, we had approximately $626 million in debt, of which $469 million was community-level mortgage debt, $58 million was loans payable and $99 million was our newly issued 4.72% Series A

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bonds. 91% of our total debt is fixed rate. The weighted average interest rate on our mortgage debt was 3.77% at quarter end compared to 3.81% at quarter end last year. The weighted average maturity on our mortgage debt was 4.9 years at quarter end and 5.5 years a year ago.

At quarter end, UMH had a total of $215 million in perpetual preferred equity, not including the $247 million Series C preferred stock, which was redeemed on July 26. Our preferred stock, combined with an equity market capitalization of $965 million and our $626 million in debt, results in a total market capitalization of approximately $1.8 billion at quarter end.

We had a relatively quiet quarter in the capital markets. We sold an additional 857,000 shares of common stock through the ATM at a weighted average price of $23.73 per share, generating gross proceeds of $20.3 million and net proceeds of $19.9 million after offering expenses.

In conjunction with the Series C preferred stock redemption, we drew down $50 million on our credit facility. We have an additional $50 million potentially available pursuant to an accordion feature as well as $30 million available on our revolving lines of credit for the financing of home sales and the purchase of inventory and $15 million available in a line of credit secured by rental homes and rental home leases.

From a credit standpoint, our net debt to total market capitalization was 19.4%. Our net debt less securities to total market capitalization was 16.8%. Our net debt to adjusted EBITDA was 4x. Our net debt less securities to adjusted EBITDA was 3.5x. Our interest coverage was 3.5x, and our fixed charge coverage was 1.6x.

Additionally, we had $47 million in our REIT securities portfolio unencumbered. This portfolio represents approximately 2.7% 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.

With our strong financial position, growing earnings and access to the capital markets, we are well positioned to continue our growth initiatives. And now let me turn it over to Gene before we open it up for questions.

Eugene W. Landy
Founder & Chairman of the Board

UMH Properties, Inc. has a mission to provide the nation with quality affordable housing. Our business should perform well in good times and bad with minor fluctuations in our operating results. It is for this reason that we have prevailed for the past 54 years.

The recent redemption of our Series C perpetual preferred stock should result in significant earnings growth in the near term. It also demonstrates the strength of our business plan and our team's ability to execute on it.

Over 10 years ago, we decided to expedite our growth strategy by acquiring value-add acquisitions that would benefit from the implementation of our business plan. The biggest change to our historical business plan was the implementation of an aggressive rental home infill strategy.

We always believed the rental model would work well, but the results have exceeded our expectations and are a critical component of our success. We have built a first-class portfolio and an even better platform. We predict that in 5 years, our vacant sites will be occupied. We are leaders in this industry, and we must work diligently to increase the nation's supply of affordable housing. We plan to renovate older communities, develop expansion sites and develop new manufactured housing communities.
In a relatively short period of time, we have a possible pipeline of over 3,000 sites for future development. Our industry should aim to contribute 100,000 sites and homes annually. This can be accomplished through the development of 500 communities containing 200 sites. Our company serves an important mission for all our stakeholders. We are the future of housing and the outlook for both the industry and UMH have never appeared brighter.

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Question and Answer

Operator

[Operator Instructions] Our first question will come from Craig Kucera with B. Riley.

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

Sam, I think you mentioned you had about 300 rental homes in stages you've set up last quarter. In your commentary, you mentioned you now have 500. How are you thinking about the pacing of getting those homes ready during the remainder of the year? And are there any labor or supply chain issues that you're running into in getting those installed?

Samuel A. Landy
President, CEO & Director

All of the supply issues are loosening up and improving and getting better and better. What's interesting is to look forward 5 years and to look at all the hard work we've done getting approvals to build expansions and make acquisitions with vacancies. And the acceptance of the rental home product shows we can rent 900 homes per year if we can create the supply. And there's every reason to believe we can for the next 5 years.

And so if you look out 5 years and say, we're going to add 4,500 rental units at better than $10,000 per year, we're going to have our 4% rent increases for 5 years, we're going to do 1,000 units per year in acquisitions and we're going to build 400 lots per year for 5 years, the growth in FFO over 5 years at better than a 50% expense ratio, better than meaning that the expenses are less than 50%, gets extremely exciting for what it can do to UMH shareholders. So the supply constraints are easing and we are -- there's rental homes being delivered to many communities and they're getting them set up. Brett, do you see anything specific slowing us down?

Brett Taft
VP & COO

No, I don't see anything slowing us down. I think we're getting to the point now where all of the work we've done ordering the homes, getting them set up, they're coming online and they're starting to become occupied now should become apparent in the third and the fourth quarters of this year. The good news about our positive results in '20 and 2021 was we filled so many sites. The bad news was that the supply constraints that we hit then, we basically depleted our inventory. Now we've got those 560 homes on site with more being delivered in July of this year, which wasn't reported, obviously. We did occupy 65 new rental homes, which was our biggest number since September of last year. So we believe we're turning the quarter, and we should see pretty strong occupancy growth for rentals going forward, which will translate to both the top and the bottom line.

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

Great. No, I appreciate the color. You did mention in your commentary about sales being hampered by inventory. But I'd be curious as to overall traffic patterns. Were they as strong as they were maybe a year ago? And how has traffic been trending here in the third quarter for sales?

Brett Taft
VP & COO

Yes. Sales traffic is also very strong. And again, it's really the same story as the rental home issue we ran into with supply constraints on obtaining inventory. But our sales pipeline at any given time has between $4 million and $5 million in pending deals, and it's really just a function of when we get those homes and when those deals actually close.

So as those homes that we have coming in get set up and get closed, we do think that we'll be able to drive sales performance in line with last year. We are pleased with our profitability. Overall, we're at a 31% gross markup, and that's over 27% last year. And I should also point out that the last second quarter of 2021, at the time, was a sales record. So that was a very good month last quarter -- or a good quarter last year.

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Samuel A. Landy
President, CEO & Director

I would just add that the traffic is indicative of how much the people who need affordable housing like and desire our product and why there's waiting lists. If you look at the history of the industry, which Jim Clayton wrote up until 2002 in his book, First A Dream, following that was constraints on financing. And then in 2011, we figured out go to rental homes. And as of now, 2021, I believe it's clear that a rental manufactured home in a community is more desirable than apartments, townhouses, condos at equivalent price ranges. So that means the long-term demand for our product and the reason we should increase supply is there. People want this product.

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

Okay. I appreciate that. Anna, I think your G&A has been running around $4 million, a bit more of a pickup here in the second quarter. Can you comment on what's driving that? And is sort of a $4 million run rate a pretty good run rate for the rest of the year?

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

That is a good run rate. We did have some one-time items in this quarter. We had some legal fees. We had some -- a lot of travel this quarter. So -- I'm sorry?

Samuel A. Landy
President, CEO & Director

Defeasance.

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

Oh, I'm sorry. And of course, the fees on the loan we have in that quarter, too. So taking all that out, it's a little bit higher than normal because of the travel and the professional fees. But other than that, I think we are on target.

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

Okay. Great. And I'm curious to hear about the buyer pool for manufactured housing communities right now. You've done more acquisitions, I think, year-to-date than you did in the prior 2 years. Has the rise in interest rates kind of knocked out some buyers? You mentioned cap rates still remain very aggressive, but has there been any move there to the upside?

Eugene W. Landy
Founder & Chairman of the Board

If I may, because I've been around a long time, I was around for the Volcker years, and we were very surprised what happened then when interest rates went to 12%, 14%, 15%, we had an amazing increase in the demand for manufactured homes. The manufactured housing industry had years of 200,000, 250,000 homes because people could not afford the regularly constructed home. And at 14% interest rates for mortgages, they either had to downsize or go without a housing. It's very hard to go without housing.

So my expectation is that the manufactured housing industry will see a resurgence. And that we're doing -- we're doing 100,000 homes, I've seen by the latest figures. I think that today is -- we're up to 112,000, 120,000 homes a year. But historically, that's a very small number. And I'm anticipating that we will eventually go to 200,000, 220,000 homes a year as people can no longer afford with interest rates going up from 3%, 4% to 5% and 6% and home prices going up 11%, 12%, 15%. There will be need for affordable housing, and we may be the only product. And manufactured housing may do extremely well, notwithstanding that our product too will go up in price and our payments will go up in price and other costs will go up. But comparatively, we will have an advantage.

Brett Taft
VP & COO

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And just to touch on cap rates and the previous question, the -- we're seeing rates between 4% and 5% for the most part. Some better locations and higher-quality assets are trading below that and some turnaround deals are trading with in-place numbers a little bit above that. I think that the buyer pool overall is still pretty strong, but there's certainly some buyers that relied on financing and as their costs went up have become less competitive on some of these deals. I think it's a little bit too short term right now to consider it a trend. But that's just anecdotally what we're hearing from brokers and our contacts within the industry.

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

Got it. And are you working on any more transactions? Or should we expect any more acquisitions here in 2022?

Brett Taft
VP & COO

Yes. We're working on contracts on 2 properties that we do have offers on. We don't have them under contract right now, so I really don't want to get into too much detail. But we do expect to grow the pipeline and close on, hopefully, those 2 deals without problem throughout the remainder of this year. It's about a $40 million additional pipeline.

Samuel A. Landy
President, CEO & Director

I think it's a good time to touch on the opportunity zone concept. And basically, we discovered that there's more vacant land and more turnaround manufactured home communities in opportunity zones than anywhere else. Because those areas, by their nature, are economically depressed, there are communities that have not had capital investment, have not been well maintained, have significant vacancies and land to be built where municipalities might want money invested and might want a community instead of fighting the zoning battle.

And with that in mind, we've looked at how opportunity zone funds work. And UMH has created its own opportunity zone fund, and it creates long-term, a long-term pipeline of communities for UMH. In terms of just like the Nuveen deal, UMH will develop or rehabilitate communities in the opportunity zone. We'll earn fee income for doing that. The opportunity zone fund will receive the majority of the economic benefit, but then we'll have the first option to purchase the community. So we don't experience the 3- to 5-year loss turning around or building the community, but we experience immediate revenue for management and then get the first option to purchase the community.

And what we've learned over a 6- to 12-month period is there are more acquisition and to-be-built opportunities in those areas than anywhere else. They happen to be longer-term investments, but they exist.

Operator

[Operator Instructions] Our next question will come from Keegan Carl with Berenberg.

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

Just one quick follow-up on the home sales point. Is the $30 million discussed last quarter still a good number for the balance of the year?

Brett Taft
VP & COO

So you're talking about gross sales of $30 million. We did $27.3 million last year. It's achievable, but it's going to take a lot of things to break our way on the timing of inventory. I think over the next 12 months going forward, that's very achievable. To get to $30 million for this year, possible, but I wouldn't want to guarantee it.

Samuel A. Landy
President, CEO & Director

So the timing is the issue. In terms of sales, we're seeing higher prices per home. The inventory is arriving. You're going to see a new drone video that's going to come out very shortly of all of the homes at Duck River that have now arrived and

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are being set up. So we're getting the homes set up for sale. Whether we'll have adequate closings by December 31st is up in the air. But we have more homes being delivered and more homes selling at higher prices than ever before.

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

Got it. Shifting gears here a little bit. So what was driving the decline in same-store property rental home occupancy? So is it just a function of adding homes later in the quarter and not leasing them off? Or are you seeing any sort of softness in demand?

Brett Taft
VP & COO

No, I would not say a softness in demand. I think that that's -- during COVID, our tenants did stay a little bit longer. There are some that we needed to turn over, and we are just now in the process of starting to turn those units over. And overall, we did add 238 units to our rental home portfolio. Overall occupancy had only increased by 109 units.

What we're seeing across the board throughout our portfolio no matter what market you're talking about is plenty of demand to fill those units and plenty of demand to fill the units that we have on order. So while occupancy percentage is down, what, 94.6%, 94.8%, it's still right in line with that 95% historical average, and we do expect that to grow here going forward.

Eugene W. Landy
Founder & Chairman of the Board

I want to point out a competitive advantage against conventional apartments. We, at one point, were at $800 a month and they were at $1,100. They're now at $1,300, $1,400 a month and we're at $900 a month. So we're providing 3 bedrooms, 2 baths. They're only 2 bedrooms and 1 bathroom. So that from the consumer's point of view, we really have a superior product at a superior price. And there is a shortage of housing and a shortage of affordable housing, so we're very optimistic that the rental program will continue full speed ahead and sales will also be reasonably good. But the future of the company right now is the rental program. And we have 2,500-3,000 vacancies, and we see no reason why we can't fill them with rentals.

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

Got it. If we think about same-property community operating expenses, they're up over 8% in the quarter. Just wondering if you guys could go into a little bit more detail on what the drivers of that were.

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

Well, some of it, as we had spoken about in the first quarter, relates to salary increases and employment increases. We did have additional employees this quarter. We were running a little light in previous quarters and we're able to do the hiring this quarter. So that was a big change.

We also had some water and sewer and some tax increases. So that played a major role in the increase in expenses.

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

Got it. And then last one for me. Can you just maybe walk us through the accounting on the preferred redemption that was announced in the quarter but actually completed subsequent to quarter end? Just trying to kind of reconcile some of the numbers there.

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

Right. Because we had announced that we will be redeeming the preferred stock, GAAP requires us to pull it out of equity and put it into the liability. So that is what we did. So there was a reclassification from the equity of $247 million to liability. So we increased liabilities by $247 million.

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Operator

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

Samuel A. Landy
President, CEO & Director

Thank you, operator. I would like to thank the participants on this call for their continued support and interest in our company. As always, Gene, Anna, Brett and I are available for any follow-up questions. We look forward to reporting back to you in November with our third quarter 2022 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 (877) 344-7529 or international, which is (412) 317-0088 and enter the passcode 6928263. Thank you, and please disconnect your lines.

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