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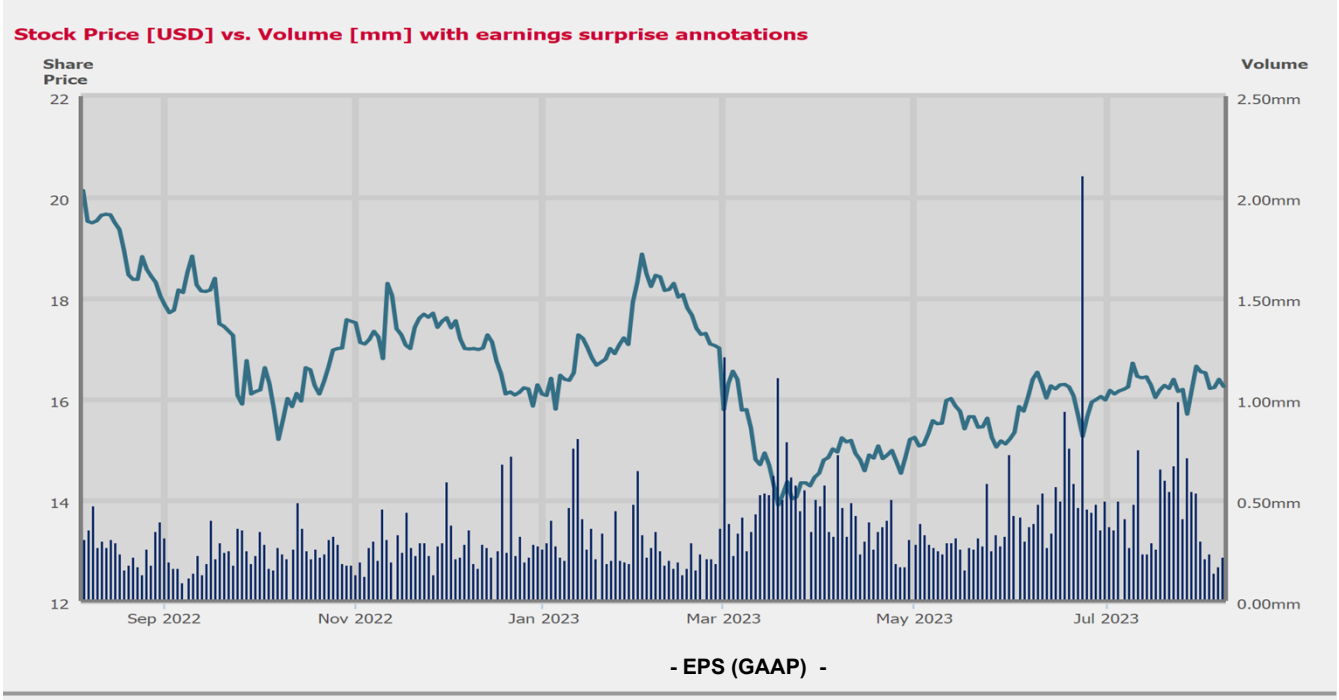
FQ2 2023 Earnings Call Transcripts

Wednesday, August 9, 2023 2:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2023-			-FQ3 2023-	-FY 2023-	-FY 2024-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS (GAAP)	(0.02)	(0.07)	NM	0.00	(0.10)	NA
Revenue (mm)	54.87	55.29	0.77	57.07	217.32	NA

Currency: USD
Consensus as of Aug-08-2023 11:27 PM GMT



- EPS (GAAP) -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2022	(0.04)	(0.18)	NM
FQ4 2022	(0.01)	0.00	NM
FQ1 2023	(0.04)	(0.09)	NM
FQ2 2023	(0.02)	(0.07)	NM

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Call Participants

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Presentation

Operator

Good morning, and welcome to UMH Properties Second Quarter 2023 Earnings Conference Call. [Operator Instructions] Please also note that this event is being recorded. It is my pleasure to introduce your host, Mr. Craig Koster, Executive Vice President and General Counsel. Thank you. Mr. Koster, you may begin.

Craig Koster
Executive VP, General Counsel & Secretary

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. This supplemental information presentation, along with our 10-Q, are available on the company's website at umh.reit.

We would like to remind everyone that certain statements made during this conference call, which are not historical facts, may be deemed forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The forward-looking statements that we make on this call are based on our current expectations and involve various risks and uncertainties. Although the company believes the expectations reflected in any forward-looking statements are based on reasonable assumptions, the company can provide no assurance that its expectations will be achieved. The risks and uncertainties that could cause actual results to differ materially from expectations are detailed in the company's second quarter 2023 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 the 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, Founder and Chairman; Samuel Landy, President and Chief Executive Officer; Anna Chew, Executive Vice President and Chief Financial Officer; Brett Taft, Executive Vice President and Chief Operating Officer; Jim Lykins, Vice President of Capital Markets; and Daniel Landy, Executive 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, Craig. We are pleased to report that normalized FFO increased sequentially from $0.20 per share in the first quarter to $0.21 per share in the second quarter of 2023.

During the quarter, our share count increased by approximately 2.9 million shares from our issuances through the common ATM raising $45.1 million in new equity, which is being rapidly invested in additional rental homes, expansion lots, community capital improvements and finance home sales. Once these investments come online, this capital is expected to generate future FFO growth.

Our past capital investments have made UMH a top-performing provider of manufactured homes for sale or rent. During the first 6 months of the year, 534 of our 1,100 homes in inventory were rented. Additionally, we sold 174 homes. Our August 1, 2023, rent roll is now 7.5% higher than it was on January 1, 2023.

Same-property occupancy is now 87.9% as compared to 86% last year. Our same-property rental home occupancy increased from 93.4% at year-end to 94.1% at the end of the second quarter. Our same-property monthly rent per site increased 4.7%, and our same-property monthly rent per home increased by 7% over the second quarter of last year.

These improved operating metrics resulted in same-property income growth of 9% with expense growth of 4.2% generating same-property NOI growth of 12.6% or $3 million over the second quarter of last year. Our same-property expense ratio decreased from 42% last year to 40% for the second quarter of 2023.

The rapid occupancy of inventory should result in the further acceleration of our revenue growth this year. We are pleased with our high single-digit percentage increase in same-property NOI for the first 6 months of 2023 and our double-digit percentage increase in

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same-property NOI for the second quarter of 2023. In addition, total NOI growth for both the 3 and 6 months ended June 30, 2023, have both experienced double-digit percentage increases.

Subsequent to quarter end, we paid down $34.7 million of our floor plan lines, which have a weighted average interest rate of 8.8%, reducing it to approximately $4 million. This should reduce our interest expense for the third quarter and beyond and help increase FFO per share. Further, each $50 million in new equity represents approximately 3 million additional shares. The earnings generated from investing that capital typically requires time to be accretive to earnings. We are therefore very pleased with our sequential 5% increase in FFO per share to $0.21 for the second quarter.

Gross sales for the quarter increased 18% to $8.2 million as compared to $7 million last year. Net income from sales for the quarter was approximately $665,000 as compared to $876,000 last year. Included in net income are higher interest expenses and elevated inventory carrying costs.

During the quarter, we sold 91 total homes, of which 43 were new homes. Our average new home sales price was $141,000, and our average used home sale price was $45,000.

Year-to-date, gross sales increased by 38% from $11.3 million to $15.5 million.

Year-to-date, we have financed approximately 82% of our home sales. We have a total of $73 million in home loans on our balance sheet that earn us a weighted average interest rate of 6.8%.

On the expansion front, we are on track to deliver 216 lots at 4 communities in our portfolio. These expansions are located in Maryland, Pennsylvania, Tennessee and Indiana. These expansions are located at communities in good markets and should generate profitable sales.

We continue to make progress filling our newly developed communities owned through the joint venture with Nuveen. We have gotten the message out to local developers that we will buy entitled land or newly developed communities that allow them to earn a fair profit for their work. This has resulted in numerous deals that we are evaluating and may execute at the right time.

UMH continues to seek acquisitions that meet our growth criteria. Subsequent to quarter end, we entered into a contract to purchase 2 communities in Maryland containing 190 sites for a total purchase price of $12.5 million. We are careful to evaluate each deal and weigh the short-term impact on earnings versus the long-term yield expectations and value creation. Our typical acquisitions take 3 years or more to become accretive, but allow us to generate the strong long-term operating results that we are reporting today.

Our growth is dependent on the ability to have vacant lots to fill. Those vacant lots are required through acquisitions, development of expansion sites or greenfield development projects. All of these growth initiatives provide long-term value for our shareholders and should continue to result in a growing dividend and stock price.

Having 55 years of operating experience gives us great confidence in our business plan and our ability to execute. Our goal is to continue to grow UMH into a national company by maintaining a sound balance sheet and continuing to invest in our growth initiatives.

Despite the headwinds in the real estate market and a challenging economic environment, UMH continues to excel. Our operating results are starting to positively impact the bottom line even with increased interest expenses. Demand for affordable housing is at an all-time high.

We are in a position to grow UMH on a national level and implement our proven business model in new markets. We have internal growth opportunities through the occupancy of our vacant sites, increase in rents and through the development of our vacant land. We are well positioned to grow income and per-share earnings through the successful implementation of our proven business plan.

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

Anna T. Chew
EVP, CFO, Treasurer & Director

Thank you, Sam. Normalized FFO, which excludes amortization and nonrecurring items, was $13 million or $0.21 per diluted share for the second quarter of 2023 compared to $12 million or $0.22 per diluted share for 2022, resulting in a 5% per share decrease. Sequentially, normalized FFO increased from $0.20 for the first quarter to $0.21 in the second quarter, representing a 5% per share increase.

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We were able to obtain this increase in normalized FFO despite our operating results being largely impacted by our investments to grow the company through value-add acquisitions and developments, inflation and rising interest rates on our short-term borrowings. UMH is well positioned to grow FFO throughout the rest of the year as we increase occupancy and revenue.

Rental and related income for the quarter was $47.1 million compared to $42.2 million a year ago, representing an increase of 11%. This increase was primarily due to recent community acquisitions, the addition of rental homes and an increase in rental rates.

Community operating expenses increased 6% during the quarter. This increase was mainly due to our recent acquisitions as well as an increase in payroll, rental home expenses, real estate taxes, insurance, waste removal and sewer expenses.

Community NOI increased by 16% for the quarter from $23.3 million in 2022 to $27 million in 2023.

Our same-property results are trending in the right direction. It is important to note that while total community operating expenses were up 6%, same-property operating expenses were only up 4.2%. Same-property income increased by 9%, generating same-property double-digit percentage NOI growth of 12.6% for the quarter.

As we turn to our capital structure, at quarter end, we had approximately $727 million in debt, of which $445 million was community-level mortgage debt, $182 million was loans payable and $100 million was our 4.72% Series A bonds. 75% of our total debt is fixed rate.

The weighted average interest rate on our mortgage debt was 3.88% at quarter end compared to 3.77% at quarter end last year. The weighted average maturity on our mortgage debt was 5.2 years at quarter end and 4.9 years at quarter end last year. The weighted average interest rate on our short-term borrowings is 7.42% as compared to 3.69% last year. In total, the weighted average interest rate on our total debt is 4.88% compared to 3.92% last year.

We continue to explore opportunities to raise lower-cost capital to pay down our short-term borrowings, which will result in increased earnings per share.

Subsequent to quarter end, we paid down our floor plan lines to approximately $4 million. These lines had a weighted average interest rate of 8.8%.

At quarter end, UMH had a total of $265 million in perpetual preferred equity. Our preferred stock, combined with an equity market capitalization of $1 billion and our $727 million in debt, results in a total market capitalization of approximately $2 billion at quarter end.

During the quarter, we issued and sold approximately 2.9 million shares of common stock through our common ATM program at a weighted average price of $15.61 per share, generating gross proceeds of $45.1 million and net proceeds of $44.2 million after offering expenses. Subsequent to quarter end, we issued and sold approximately 2.1 million shares of common stock through our common ATM program, generating gross proceeds of $34.8 million and net proceeds of $34.3 million after offering expenses.

Additionally, we issued and sold approximately 712,000 shares of our Series D preferred stock through our preferred ATM program at a weighted average price of $21.85 per share, generating gross proceeds of $15.6 million and net proceeds after offering expenses of $15.3 million. Subsequent to quarter end, we issued and sold approximately 351,000 shares of our Series C preferred stock through our preferred ATM program, generating gross proceeds of $7.6 million and net proceeds of $7.5 million after offering expenses.

In May, we entered into a $25 million term loan with FirstBank. The term loan has a 5-year term with a fixed interest rate of 6.15%. The term loan is secured by rental homes and their leases in various communities throughout our portfolio.

Additionally, we entered into a new $25 million line of credit secured by rental homes and their leases. This new line of credit also has a 5-year term and has a variable rate tied to prime. We view this as a good short-term source of capital to invest in our rental program until we are able to secure long-term capital at more advantageous rates. We are pleased to have another line secured by our rental units.

Subsequent to quarter end, on July 19, the company expanded its revolving line of credit with OceanFirst Bank from $20 million to $35 million. Interest is at prime with a floor of 4.75%. This line is secured by the company's eligible notes receivable. The amendment also extended the maturity date to June 1, 2025.

From a credit standpoint, we ended the quarter with our net debt-to-total market capitalization of 34.3%, our net debt less securities-to-total market capitalization of 32.4%, our net debt-to-adjusted EBITDA of 7x, our net debt less-securities-to-adjusted EBITDA of 6.7x. Our interest coverage was 2.5x and our fixed charge coverage was 1.8x.

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From a liquidity standpoint, we ended the quarter with $41.5 million in cash and cash equivalents and $80 million available on our unsecured revolving credit facility with an additional $400 million potentially available pursuant to an accordion feature. We also had $99.7 million available on our other lines of credit for the financing of home sales and the purchase of inventory and rental homes.

Additionally, we had $36.7 million in our REIT securities portfolio unencumbered. This portfolio represents only approximately 2.1% of our undepreciated assets. We are committed to not increasing our investments in this REIT securities portfolio and have, in fact, sold certain positions.

We are well positioned to continue to grow the company internally and externally.

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 is well positioned to succeed now and into the future. We have built a first-class portfolio of manufactured housing communities that profitably provide the nation with much-needed affordable housing. We own 135 communities containing 25,700 developed homesites. We have built this portfolio asset by asset and made the right investments and improvements to provide a durable income stream that is resilient during recessions. We have both internal and external growth opportunities for the infill of our vacant sites, expansion of our communities and development of new communities. Additionally, we have a profitable sales and finance company that should grow in the future.

We view ourselves as an important piece of the affordable housing solution. We have a product and model that has proven to work time and time again.

UMH deploys capital into projects that take time to come online and become profitable. At any given time, we have $100 million or more invested that is not yet income-producing. This results in a lag in earnings. It's important to recognize that earnings per share are an important metric, but not the only important metric.

Our real estate continues to increase in value. As our real estate increases in value, we should be able to recapture this trapped equity through refinancing. Our business model reflects our aspiration that over 12 years, our assets may double in value, and if we assume 50% leverage, our equity could triple its value. These potential gains are not reflected in today's financial results. Investing in real estate takes time to produce results, but we have a 55-year history of executing on this business plan.
We are an industry leader with a platform that delivers best-in-class results. We look forward to generating increased earnings per share and a growing stock price while, at the same time, providing quality affordable housing for our residents.

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Question and Answer

Operator

[Operator Instructions]

And our first question here will come from Rob Stevenson with Janney.

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

Can you talk about how the home sale business is trending? I mean, third quarter is usually fairly similar to second quarter, and then you have some seasonality over the winter quarters. But is that still holding, given financing rates and the pricing of alternative housing? How should we be thinking about that as we trended in the back half of the year?

Brett Taft
Executive VP & COO

Yes. We're very confident in our ability to continue to generate the sales we've done over the first and second quarters. We're sitting here with a $3 million pipeline of homes for sale, so we believe we are on track to put up similar results that we did in the second quarter. We're getting the margins that we expect, which is generally a 30% gross markup. And demand appears to be strong across the portfolio.

Our internal financing is really allowing us to continue to drive these sales as we're financing most of our home sales at a 7.5% interest rate, where most of the competition in that market is 9%, 10%, 11%.

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

Okay, that's helpful. And then can you tell me about what condition the Maryland acquisitions are in? Are these the typical under-occupied assets that you'll need to move out some homes and improve the condition? Or are these some of the better-quality, stabilized assets you've bought a couple of recently that you'd bring rental homes in and better management to, et cetera? How are they characterized?

Brett Taft
Executive VP & COO

Yes, so it's a little bit of both. This isn't as much of a heavy lift as some of the previous acquisitions we've done. So it's 191 sites. 49 of those sites are very high-quality multi-section homes perpendicular -- or parallel to the street, I'm sorry. And then the other community, which is a neighboring community, is about 142 sites and that one will require some value-add, your typical home removal, capital improvements and rental home infill.

So the combination of both of those allow us to get a portion of it stabilized and allow us to generate some of the long-term growth opportunity that we've seen before.

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

And are those third quarter acquisitions at this point?

Brett Taft
Executive VP & COO

There is a loan assumption involved so it's hard to say exactly. I would say it's more likely the fourth quarter.

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

Okay, that's helpful. And then last one for me. So same-store operating expenses, Anna talked about, is it growing there but revenue more. So year-to-date, they're up 5.5%.

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What level of expense growth are you expecting in the back half of '23? Is that a sort of similar amount to this 5.5%? Is there something that's increasing, decreasing where you had more expenses or less expenses in the first half of the year that will hit? Anything that we should be aware of there?

Anna T. Chew
EVP, CFO, Treasurer & Director

Sorry. This is Anna. I think that it will increase maybe a smidgen, but it will be in the range of inflation. So I would think it would be around the 6% range, give or take.

Samuel A. Landy
President, CEO & Director

And Sam here, and I think now is a good point to mention the decline in the expense ratio. And because we're up to about 87% occupancy, the additional occupancy of rental homes and the home sales should be highly accretive, should be reducing the expense ratio because this is additional income to communities that have predominantly fixed costs.

So between that and the expansion sites that we've invested significant sums in, both the expansion sites and the Sebring project so that we do have over $100 million in assets that are not currently earning income, but they have the room to earn that income as we sell homes into the expansions and the new developments and as we rent homes. So all of that means that we have substantial ability to increase the operating income.

Anna T. Chew
EVP, CFO, Treasurer & Director

And you do see the expense ratio reduction in the same-property numbers because you see that for the 3 months as of June 30, 2023, was 40.1%, and last year at this time, it was at 42%. So it was a nice decrease in the expense ratio.

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

What's the pace that you guys are running at currently in terms of monthly vacant rental [units] rented and sort of absorbing the vacancy in the rental home portfolio right now?

Samuel A. Landy
President, CEO & Director

We'll answer that in 1 second but I just wanted to tell you, amazingly, from June 2022 to date, we added 775 rental homes, of which 668 are occupied. So we look at that as the equivalent of we built and filled a 668-unit apartment complex, which is a pretty incredible achievement. And now, Brett, you can answer that.

Brett Taft
Executive VP & COO

Yes, absolutely. So for the first 6 months of the year, we converted 614 new homes from inventory to rental units. I do realize that the number in the supp is 534, but that also includes some rental homes that were sold during the quarter.

So new inventory that was actually converted was 614 homes. Additionally, we filled another 127 homes in July. So we are averaging over 100 homes per month and that includes the slow first quarter, which is obviously the winter and it's seasonal, as you mentioned earlier.

So we're on track to meet that goal of filling 100 homes a month. Our inventory is down to 550 homes now, which is much closer to where it historically has been. Additionally, as Anna mentioned in her portion of the script and I believe Sam as well, we paid down our floor plan almost to 0 at this point, correct?

Anna T. Chew
EVP, CFO, Treasurer & Director

Correct. I mean, we had paid it down to only $4 million, and then as of today, we're pretty much down to 0.

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

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And then I guess one other question from that. How aggressive are you guys in putting new orders in these days? I mean, what do you have, like an order that hasn't been delivered thus far that you're going to have to spend on? Or is the catch-up in the production for the builders allowed you to reduce that substantially as you go through here?

Samuel A. Landy
President, CEO & Director

Exactly. Things are back to normal in terms of most communities probably shouldn't have more than 5 homes in inventory. There's exceptions where sales and rentals are much faster so you might have 10 homes in inventory. But never again will we have 1,000 homes in inventory. And the proper number is probably below 500 homes, and we're approaching that right now.

Brett Taft
Executive VP & COO

Correct. And just to add a little bit to that. So we have 550 homes in inventory right now. Every month that we fill 100 homes, it's basically another $100,000 in revenue. You add our rent increases on top of that, our monthly rent roll is growing anywhere from $125,000 to $175,000 a month.

As to the question, we have been ordering some homes but only at communities with very strong sales that have filled all of the rentals. So we've ordered less than 75 new homes this year. And to the other part of that question, the backlogs are in the 4- to 5-week range with some factories in the 6- to 8-week range. So things are much easier to get just-in-time inventory, which will stop us from having such high inventory levels in the future.

Eugene W. Landy
Founder & Chairman of the Board

Eugene Landy, Chairman. For the benefit of our loyal manufacturers, our policy is to do 800, 850 new homes a year. And for 2024, we're very hopeful we'll get back on that and we'll be giving them the type of orders we have in the past.

Operator

Our next question will come from Keegan Carl with Wolfe Research.

Keegan Grant Carl
Wolfe Research, LLC

Sam, you mentioned carefully weighing near-term dilution versus long-term accretion. Just kind of curious how many opportunities have you guys passed on the last several quarters due to financing headwinds? And how should we think about your external growth going forward from here?

Samuel A. Landy
President, CEO & Director

We pass on opportunities all of the time and substantial opportunities all of the time. The remainder of the question was in terms of...

Brett Taft
Executive VP & COO

Future growth, really, and how do we weigh that with short-term dilution?

Samuel A. Landy
President, CEO & Director

So if you look at the acquisitions we did the last 3 years, because our business plan is it takes time, those will become more accretive next year. But they're doing fantastically. We have -- I have a document in front of me that shows me Ohio in the past 12 months, we've, since January 1, increased occupancy 148 lots; Indiana, 84 lots; Western Pennsylvania, 58 lots; South Carolina, which is a new place, 37 lots; Alabama, 48 lots; Michigan, 21 lots.

So these acquisitions do very well. But again, nothing's immediate. And so we have to balance how many dollars are we going to put out? How much are we going to increase expenses from the prior owner? How much are we going to reduce occupancy? How long will it take us to turn it around? Every acquisition out there, I believe, will be good in 7 years. If you have that kind of time horizon, you can make any of them good. But if you're trying to do it in 3 to 5 years, it limits what you should acquire.

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But we do believe more acquisition opportunities will come to us, but also recognize we have over 2,000 vacant lands -- 2,000 acres of vacant land that's joining our communities. And looking at that today, in some places we fought expansion battles to get those approved as manufactured housing such as Vineland, New Jersey, and Greenwich Township, Pennsylvania near Allentown. And probably because of the significant shortage of housing, the best bet is to stop fighting to get manufactured home lots approved and just zone it 1-acre residential and sell it.

So we're working on that to make some of the assets that are not currently earning income to make them productive for us because we have 2,100 vacant acres not earning anything. We have 12% vacancy that we intend to fill. And I think we have $200 million invested in vacant rental homes, expansions and other things that are not yet earning money. So we have all of those internal things to grow, and we're trying to balance that issue with acquisitions. Occupancy is down at 87%. That doesn't leave us enough runway. We have to find more acquisitions with vacancies and get more lots built for the future.

Eugene W. Landy
Founder & Chairman of the Board

Gene Landy, Chairman. Our mission statement is -- for the entire industry is to build 500 new communities a year, of 200 units per community. That's 100,000 units. The manufactured housing industry can double its production and provide 100,000 units, and that would be just the beginning of helping to solve the affordable housing crisis. And that crisis is one that must be solved. And so we're doing everything in our power to be able to grow our company and to build these additional homes.

We hope to get some legislative help and we hope to get some help from the investors who are socially conscious. UMH is a social investment and an important contributor to solving the affordable housing shortage.

Keegan Grant Carl
Wolfe Research, LLC

And I guess it's good to see your same-store revenue growth outpacing expense growth, which obviously is NOI margin expansion. I guess, how should we think about that in the balance of the year? I mean, obviously, there's some seasonality in the business as far as the ramp-up in occupancy and then a decline. And I guess how much of this is attributed to operational efficiencies versus you just kind of adding homes onto your platform and more or less solving for the top line?

Brett Taft
Executive VP & COO

Yes. I think that as we indicated earlier this year, that as we continue to fill our vacant rentals, as we continue to stack quarter on quarter of occupancy growth and you compare that to last year's numbers, where we had very minor improvements in overall occupancy and revenue growth, that we should be able to continue this growth throughout the rest of the year.

And as we get into next year and order 800 new homes and begin to fill those, that we believe that this growth is sustainable. We've always thought that we should be in the high single-digit NOI growth. We're very happy with our double-digit NOI growth for this quarter. And see no reason to believe that, that should slow down anytime soon.

Samuel A. Landy
President, CEO & Director

When we have those 1,000 homes in inventory, that's 1,000 homes we have to heat, 1,000 lots we have to cut the grass. And as they fill instead, the resident's heating them and the resident's cutting the grass and now they're earning revenue. So that reduces your expense growth pretty dramatically.

Keegan Grant Carl
Wolfe Research, LLC

Yes. I guess just on the seasonality, right? Like obviously, peak moving season is kind of ending in this range. So is it fair to assume that, that gap will close between -- can we expect some NOI margin contraction from where this quarter is at? Is that kind of through the back half of the year? Is that how you're thinking about it internally?

Samuel A. Landy
President, CEO & Director

Not at all, not at all. Number one, when you talk to the managers, there's waiting list for rental units everywhere and just like we have a 7% increase in rental home revenue, I asked them the question, when the rental home becomes vacant, can you increase the rent

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more than just the normal 5%? And not all but almost all of the managers say yes, which means on those rental homes, you're going to get growth over 5%.

And then again, I consider that ratio, operating expense ratio, extremely important because that's your profitability. And you can look at the supplemental and you'll see the high percentage occupancy in most of our communities. So as those high percentage occupancy communities go from 86% to 100%, almost all of that revenue, 70% of that revenue should make it to the bottom line.

And then you have the communities that at this moment are difficult. And they're the communities, one of them has 1% occupancy. Some of them have 30% occupancy, 55% occupancy, but. We purchased them that way knowing we'd fill them and we, in fact, are filling them. And so that investment is not currently earning money. But as it fills up, it will hit a break-even point and then it will become profitable. And those communities, 87% occupied or more, every new unit is like 70% additional profit.

So we're in an extremely good position for -- and just along that exact same line, what you're seeing now is the green shoots. We didn't have the homes until approximately January 1. We started to really fill them about January 1. So you're not going to have 12 months of revenue from them until later. So that 12 months of revenue is going to be even more accretive than it has been in the past 6 months.

Brett Taft
Executive VP & COO

And that's what I was getting at earlier with my point about stacking quarters. As we get to the fourth quarter, which as you pointed out, is seasonally a little bit slower, we expect to fill rental units and continue to reduce our inventory. But you'll have the rent roll growth that we achieved during the first, second and third quarters, which are helping to boost that fourth quarter number as well.

Keegan Grant Carl
Wolfe Research, LLC

Got it. Just one more here. I know you mentioned the waiting list. Just kind of curious where your top-of-funnel demand is today versus this time last year just to get a better feel for where true demand levels are at.

Brett Taft
Executive VP & COO

Yes, the demand is through the roof. Last year, there was no shortage of demand. Demand was still very strong, but we didn't have homes. This year, we have homes in place. They're ready for occupancy, and we're able to capture that demand and turn them into move-ins and increase revenue. So I personally don't think demand has been stronger, specifically on the rental front, but obviously, we're very pleased with our sales as well.

Samuel A. Landy
President, CEO & Director

That's a good point to mention. UMH has an incredible team at the home office and out in the field. We refine and improve our marketing all the time. We have our drone videos. We review which communities have vacancies, where applications might be slower than what we'd like and then we adjust the marketing and it immediately improves.

So there's an incredible team here working all the time to increase sales, increase occupancy, increase profit and everybody out in the field and in the office is doing a fantastic job doing that.

Operator

[Operator Instructions]

Our next question here will come from Craig Kucera with B. Riley.

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

I think earlier in the year, you had a goal, I believe, of deploying about 1,000 rentals this year and you're running ahead of that year-to-date at 534. Is that still a reasonable target?

Brett Taft
Executive VP & COO

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Yes. We believe that we can accomplish that. And as I mentioned earlier that, that also includes some sales of older rental units. So for the first 6 months, we've converted 614 new homes from inventory into new occupied rental units. And in July, we did another 127. So we're very close to accomplishing that goal and we're still in our peak season.

I think that -- I don't want to guarantee we'll get to 1,000, but I certainly think we'll get very close to 1,000. And we'll be well positioned to be more confident in some of the orders we make next year to try and accomplish that again.

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

Got it. And just I know you haven't been as active in buying homes year-to-date. But last quarter, I think you mentioned that the pricing environment had slipped and maybe it dropped 10% or maybe even more. Is that trend continuing?

Samuel A. Landy
President, CEO & Director

This is Sam here. So we're going to something at Clayton Homes next week. They have a net zero energy house. They're working on putting solar panels on the homes. They're working on constant improvements to factory efficiency. And because of inflation, it's hard to say they'll reduce the cost, but they're doing everything in their power to control the cost of the houses. So we feel very confident we will remain the best value per square foot that there is in housing.

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

Great. And Sam, you had mentioned several times in your opening commentary that you're looking to become more of a national platform. I know you've gone, I believe, as far west as Memphis, but is the natural move for you guys to go some place kind of contiguous in the portfolio, maybe Kentucky or North Carolina? Or are you maybe potentially evaluating markets further west?

Samuel A. Landy
President, CEO & Director

What COVID proved to us is that the rental manufactured home in a community is the best form of rental housing for people earning from $40,000 to $80,000. And they could be earning more than that, but we're probably the only thing available that meets the requirement of 30% of your income covering your housing costs for a household income $40,000 to, say, $60,000.

And that model will work anywhere because anywhere someone tries to build apartments or if you look at the quality of older apartments, putting brand-new homes in a community and renting them out is better housing at a better price.

So knowing that this will work anywhere we want to go anywhere, we're well aware of how difficult it is to buy land and get approvals. We're trying to let all outside developers know they can get the land, get the approvals, sell it to us fully approved or sell it to us after they build it because we're highly confident we could add these homes as rental units and fill it. And also, we like the turnaround properties but we have to keep our eye on how many can we do without negatively impacting FFO because it does take 3 years.

So we watch all of those things. And I should add, we're becoming more confident and proving more ability to fill these homes faster than we thought we could. So if you're talking about building a community, you consider 4 sales per month as good, 48 units per year you consider successful.

Well, there's communities where we do 100 rental homes in a year. And if that's the case, that means we can do more projects, expecting ourselves to turn them around quicker, which will make more projects more attractive to us in other states.

Eugene W. Landy
Founder & Chairman of the Board

As to our geographical designs, we have a good strategy that's been working. Very proud of having picked Nashville and Memphis and now we're going into Florida. And we have the greatest migration in the United States' history to the southeastern part of the United States.

So we have expansion plans and we pick our areas very carefully. And to date, we've been successful in picking areas that will overperform the other areas.

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Actually though, the housing shortage is so great that it's hard to find an area that doesn't need affordable housing. But we still want to be where the action is, where the new factories are going, we believe, both in affordable housing and workforce housing, and we want to build our parks where the population is growing faster.

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

Okay, great. And you had mentioned how you're raising renewal rents, I believe, 5%. Most of your managers say they could raise them quite a bit more. Can you give a sense of what -- of how tenant retention is trending?

Samuel A. Landy
President, CEO & Director

Well, let me clarify that because I want to answer that exactly like you asked it. On resident-owned homes or existing people and rentals, we do not want to raise the rent more than 5%. We believe that creating that customer loyalty and that word-of-mouth has incredible value. And that's why we have waiting lists, in that way we can fill communities.

So on those, we don't want to go forward more than 5%. And in fact, when someone buys a new home from us, they get a long-term lease matching the loan, saying rent won't increase more than 5% or CPI, but we net out water sewer, taxes, garbage, the things that come up the most. So we're proud that our operating income went up so much with just a 5% increase to our existing residents.

Now on the rental home turnover, that can go to market and the same with vacant lots. So that's why on the rental homes, we have the full 7% increase in rental revenue because there we increased the rents to market. But on existing, we really try to limit that to the 5% increase.

Brett Taft
Executive VP & COO

Yes. And about 30% of our rental units turn over annually. 60-plus percent of our residents stay more than 2 years and 40% of our residents stay more than 3 years. That number remains pretty solid over the past few years.

Operator

This concludes our question-and-answer session. I'd like to now turn the conference back over to Samuel Landy for 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 2023 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 (412) 317-0088. The conference access code is 2526307. Thank you, and please disconnect your lines.

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