S&P Global
Market Intelligence

UMH Properties, Inc. NYSE:UMH

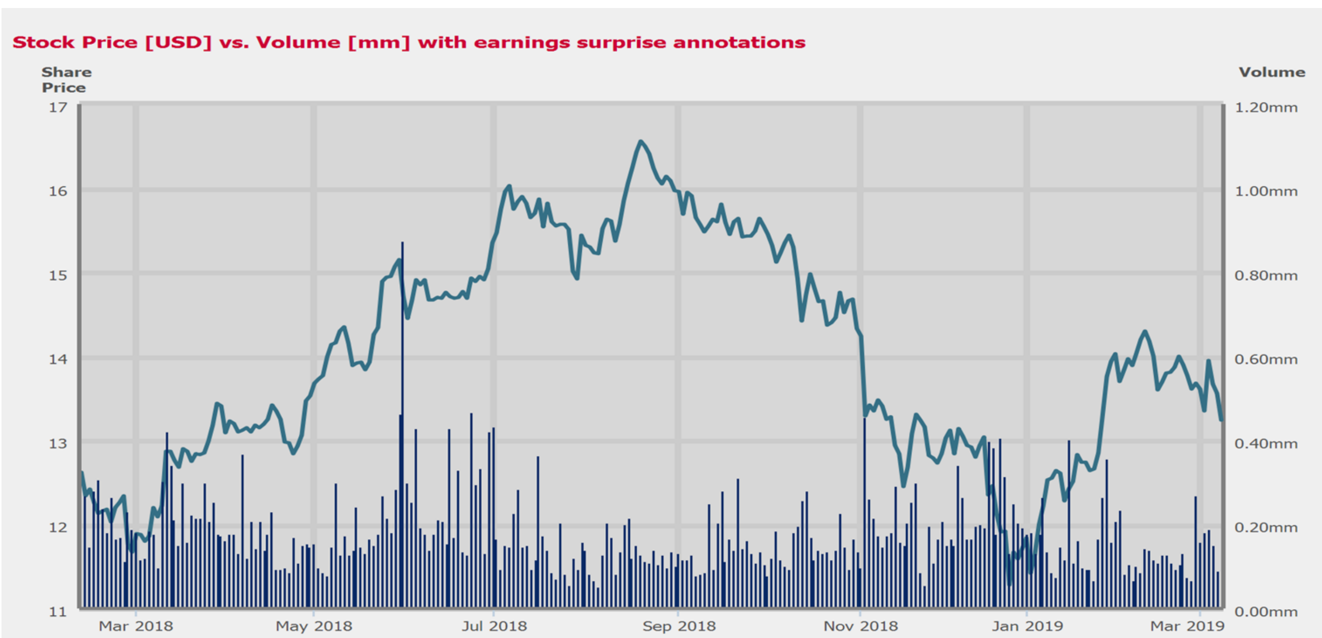
FQ4 2018 Earnings Call Transcripts

Friday, March 08, 2019 3:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2018-			-FQ1 2019-	-FY 2018-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL
EPS (GAAP)	(0.04)	(0.88)	NM	(0.04)	(0.70)	(1.53)
Revenue (mm)	33.70	34.25	▲1.63	34.33	129.04	129.59

Currency: USD
Consensus as of Nov-05-2018 12:01 PM GMT



- EPS (GAAP) -	CONSENSUS	ACTUAL	SURPRISE
FQ1 2018	(0.04)	(0.76)	NM
FQ2 2018	(0.03)	0.40	NM
FQ3 2018	(0.02)	(0.31)	NM
FQ4 2018	(0.04)	(0.88)	NM

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Call Participants

EXECUTIVES

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

Brett Taft
Vice President

Eugene W. Landy
Founder & Chairman of the Board

Nelli Madden
Director of Investor Relations

Samuel A. Landy
President, CEO & Director

ANALYSTS

Blake Gesik

Brian Rohman
Boston Partners Global Investors, Inc.

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

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

Unknown Analyst

Presentation

Operator

Good morning, and welcome to the UMH Properties Fourth Quarter and Full Year 2018 Earnings Conference Call. [Operator Instructions] Please also note, today's event is being recorded.

It's now my pleasure to introduce your host, Ms. Nelli Madden, Director of Investor Relations. Thank you. Ms. Madden, you may begin.

Nelli Madden
Director of Investor Relations

Thank you very much, operator. In addition to the 10-K that we filed with the SEC yesterday, we have filed an unaudited annual and fourth quarter supplemental information presentation. The supplemental information presentation, along with our 10-K, are available on the company's website at umh.reit.

I would like to remind everyone that certain statements made during this conference call which are not historical facts may be deemed forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The forward-looking statements that we make on this call are based on our current expectations and involve various risks and uncertainties. Although the company believes the expectations reflected in any forward-looking statements are based on reasonable assumptions, the company can provide no assurance that its expectations will be achieved. The risks and uncertainties that could cause actual results to differ materially from expectations are detailed in the company's annual 2018 earnings release and filings with the Securities and Exchange Commission. The company disclaims any obligation to update its forward-looking statements.

In addition, during today's call, we will be discussing non-GAAP financial metrics. Reconciliations of these non-GAAP financial metrics to the comparable GAAP financial metrics as well as explanatory and cautioning language are included in our earnings release, our supplemental information and our historical SEC filings.

Having said that, I would like to introduce management with us today: Eugene Landy, Chairman; Samuel Landy, President and Chief Executive Officer; Anna Chew, Vice President and Chief Financial Officer; and Brett Taft, 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. I am pleased to report our results for the fourth quarter and year ended December 31, 2018. 2018 was another great year for UMH during which we continued to successfully execute our long-term business plan. 2018 was highlighted by our portfolio growth, earnings growth, improvement in our sales operation and the strength of our operating platform. We grew our portfolio of manufactured housing communities by 7% to 118 communities containing 21,500 developed homesites. Our total revenue increased by 15% to $130 million. This growth was primarily driven by a 12% increase in rental and related income and a 45% increase in sales revenue. This was our eighth consecutive year of delivering double-digit growth of rental and related income and our third consecutive year of delivering double-digit sales growth. Community net operating income increased by 13%. This strong operating performance resulted in normalized FFO of $27.5 million, representing a 27% increase over 2017. On a per share basis, normalized FFO increased 12% to $0.74 per share.

During the year, we acquired 6 communities containing 1,600 developed homesites for a total purchase price of $59.1 million. These communities were acquired with a weighted average occupancy rate of approximately 79%. 3 of the communities are in Indiana and 3 are in Ohio. These communities have a significant upside potential through filling vacant sites, raising rents to market, submetering utilities and developing additional sites. The properties are generally in good condition and will require a shorter turnaround period than some of our previous acquisitions. Our acquisition pipeline currently consists of 2 communities containing 1,200 sites for a total purchase price of approximately $45 million. The acquisition market remains very competitive which has caused cap rates to remain at or near all-time lows. We are optimistic about our ability to source future deals and continue to grow the company through acquisitions.

Moving on to operations. We continue to experience very strong demand for affordable housing in all of our markets. This resulted in rental and related income of $114 million for 2018, which is an increase of 12% over 2017. Community net operating income increased to $61 million, representing an increase of 13% over 2017. Our community operating expense ratio improved to 46.5% in 2018 from 47% in 2017. Our overall occupancy rates at year-end 2018 was 82% as compared to 81.4% at year-end 2017. These exceptional results can be attributed to our recent acquisitions, rent increases, our rental home program and the overall strength of our business plan.

Our same property metrics exhibit continued improvement in operating results. Same property income in 2018 was $103 million as compared to $97 million in 2017, representing an increase of 6.5%. Same property net operating income in 2018 was $58 million as compared to $53 million in 2017, representing an increase of 6.6%. We are very pleased with the solid performance of our same property portfolio. Our same property occupancy rate at year-end 2018 was 83% as compared to 82.6% at year-end 2017. Our same property rent per site increased to $449 at year-end 2018 from $434 at year-end 2017, representing an increase of 3.5%.

Our same property rental home portfolio now consists of 5,870 homes with a healthy occupancy rate of 92.6%. Our home rental rates increased by 2.8% to $743 at year-end 2018. During the year, we added 905 rental homes to our rental home portfolio, which now consists of 6,500 units. We maintained a healthy occupancy rate of 92.3%. Our average home rental rate is $742 per month which includes site rent. The rental home program is one of the key components of our business plan, driving significant revenue growth year after year. We acquired communities with low occupancy levels and utilized the rental home program to quickly increase our occupancy levels. This results in more efficient community operations and higher property values. We are then able to finance or refinance the communities, effectively recapturing our investments in the communities. For many residents, our rental home is their first experience living in a manufactured home community. The rental homes give many people the opportunity to experience the benefit of manufactured housing without making a long-term commitment.

We are encouraged by the success of our sales operation. This is our third consecutive year of double-digit sales growth. Sales increased 45% in 2018, which led to a sales profit of approximately $75,000. This is the first time that we have posted a sales profit since 2006. Gross sales for 2018 were $15.8 million with a gross profit of 26% as compared to $10.8 million with a gross profit of 22% in 2017. During the year, we sold 295 homes with an average price of $53,400 as compared to 222 homes with an average price of $48,900 in 2017. Our sales improvement can be attributed to regulatory relief, improving economic conditions and the improvement in the quality of our communities. We believe that these factors will continue to drive further sales growth.

UMH's total portfolio encompasses 6,400 acres of land, of which approximately 1,700 is raw vacant land that can be developed. Assuming that we can net 4 homes per acre, we have the potential to develop an additional 6,800 sites. We continue to make progress on the expansion of our existing manufactured home communities. During 2018, we developed a total of 26 sites.

Several projects that we had anticipated beginning construction in 2018 have slipped to 2019 for various reasons. We are completing site work at several expansions and look forward to completing them this spring. We believe that we can deliver 500 or more new sites in 2019. We also own 3,300 acres in the energy-rich Marcellus and Utica Shale regions. Owning land with these vast energy resources will prove to be a very lucrative investment.

The communities that we have acquired in these markets will benefit from an increase in occupancy, resulting from increased employment in the region. The American Petroleum Institute projects that Ohio and Pennsylvania will generate 138,000 jobs per year through the year 2035. Cracker plants, Panda plants and the pipeline projects will continue to generate economic growth and capital investment in the region for years to come. The United States is the world's #1 producer of oil and natural gas and now a net exporter of natural gas. These developments will be a game changer for Ohio and Pennsylvania, leading to long-term economic prosperity.

Our core FFO and normalized FFO for 2018 were $0.72 and $0.74, respectively, both fully covering our $0.72 dividend. Each year, we improve upon our previous year's earnings.

Looking at the year ahead, we have budgeted a 4% site and home rent increase for 2019, and we expect to install and rent an additional 800 rental homes. This should result in total revenue growth of approximately $10 million. Our net operating income should increase by $6 million. We are optimistic that our increased home sales will continue and that 2019 should be a great year for our sales operation.

UMH's business operations are as strong as ever. UMH should see another year of positive earnings growth and share price appreciation. I would like to take this opportunity to thank our dedicated UMH team for all their hard work. We are proud of the results achieved by our team and remain optimistic about the prospects for our company and our industry.

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. Core funds from operations, or core FFO, was $7.4 million or $0.19 per diluted share for the fourth quarter of 2018 compared to $6.6 million or $0.19 per diluted share for the prior year period. Normalized FFO, which excludes realized gains on the sale of securities and other nonrecurring items, was $7.4 million or $0.19 per diluted share for the fourth quarter of 2018 compared to $6.3 million or $0.18 per diluted share for the prior year period. For the full year 2018, core FFO was $27 million or $0.72 per diluted share compared to $23.5 million or $0.71 per diluted share for 2017. Normalized FFO was $27.5 million or $0.74 per diluted share for 2018 compared to $21.7 million or $0.66 per diluted share for 2017, a 12% increase on a per share basis.

Rental and related income for the quarter was $29.6 million compared to $26.1 million a year ago, representing an increase of 13%. For the full year, rental and related income increased from $101.8 million in 2017 to $113.8 million in 2018, an increase of 12%. These increases were primarily due to community acquisitions, the addition of rental homes and the growth in occupancy.

Community NOI increased by 10% for the quarter from $13.9 million in 2017 to $15.4 million in 2018. For the full year, community NOI increased from $54 million in 2017 to $60.9 million in 2018, an increase of 13%. This is the eighth consecutive year that we have achieved double-digit year-over-year NOI growth.

As we turn to our capital structure, at year-end, we had approximately $439 million in debt, of which $331 million was community-level mortgage debt, and $108 million were loans payable. 77% of our total debt is fixed rate. The weighted average interest rate on our mortgage debt was 4.29% at year-end 2018 compared to 4.24% in the prior year. We have enhanced our financial flexibility by renewing and expanding our unsecured revolving credit facility. The expanded facility provides for an increase in our borrowing capacity from $50 million to $75 million with a $50 million accordion feature, bringing the total potential availability up to $125 million. The amended facility also extended the maturity date from March 2020 to November 2022 with a 1-year extension and reduced our interest rates. At year-end, we have $50 million drawn down on our facility.

UMH further increased our liquidity by issuing 2 million shares of a new 6.375% Series D Cumulative Redeemable Preferred Stock for net proceeds of approximately $48 million. We used the net proceeds for general corporate purposes, which included the purchase of manufactured homes for sale or lease to customers, expansion of our existing communities and acquisitions of additional properties.

We have also raised $35.1 million through our Dividend Reinvestment and Stock Purchase Plan. At year-end, UMH had a total of $289 million in perpetual preferred equity. Our preferred stock, combined with an equity market capitalization of $454 million and our $439 million in debt, results in a total market capitalization of approximately $1.2 billion at year-end.

From a credit standpoint, our net debt to total market capitalization was 37%. Our net debt less securities to total market capitalization was 28%. Our net debt to adjusted EBITDA was 6.8x. Our net debt less securities to adjusted EBITDA was 5.2x. Our interest coverage was 3.7x, and our fixed charge coverage was 1.7x.

From a liquidity standpoint, we ended the year with $7 million in cash and cash equivalents, $25 million available on our recently expanded credit facility and $19 million available on our revolving lines of credit for the financing of home sales and the purchase of inventory. We also had $100 million in our REIT securities portfolio, encumbered by $32 million in margin loans. This portfolio represents approximately 9% of our undepreciated assets. Although the REIT market experienced high volatility during the year, in the long term, these securities generally perform in line with the underlying real estate. We limit our portfolio to no more than 15% of our undepreciated assets. With our strong financial position, 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

Thank you, Anna. UMH is very well positioned for the future. We have selectively built our portfolio asset by asset over the past 51 years. We believe that we have invested in value-add communities with vacancies in markets that are poised to experience economic wealth (sic) [growth], resulting in future higher occupancy levels, rents and property value.

The bridge to the future is provided by our rental home program. Rental homes give us the ability to continue to grow revenue because financing for potential homeowners has been difficult to obtain. Rental homes also provide a vehicle to quickly stabilize and improve the operating results at our recent acquisitions. Once the community reaches stabilization, we can finance or refinance the community, recouping much of our investment.

Our sales operation has returned to profitability. While we are happy with this accomplishment, we believe that sales can be a major profit center for the company in years to come. UMH's rent roll currently annualizes at approximately $120 million. Each year, we raise rents 4%, which should result in an additional $5 million in rental and related income this year. Over 5 years, revenue growth on our existing portfolio from rent increases can be $25 million in additional revenue. UMH currently has 3,900 vacancies. Once occupied, these vacant sites will generate an additional $20 million in revenue and net $11 million.

Our housing product is highly competitive with apartments and conventional single-family homes at both price and quality. The housing market remains strong. There is simply not enough affordable housing being constructed. The current housing shortage is becoming more severe. In many states, they are beginning to experience an affordable housing crisis. Affordable housing is one of the only issues that can garner bipartisan support. The manufactured housing industry is well positioned to help the country to develop much needed affordable housing. At some point, all our vacant sites will be full. At that point, the industry will have to develop new manufactured housing communities. We are at the forefront of working with federal, state and local officials to be able to develop new communities. The mission of UMH has always been to provide quality affordable housing. That mission is as important now as it has ever been. We are very proud of the company we have built and the service that we provide.
We will now be happy to take questions.

Question and Answer

Operator

[Operator Instructions] And our first question today comes from Rob Stevenson from Janney.

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

Sam, you talked about the 2 properties in your acquisition pipeline, $45 million price tag I believe. What's the occupancy there? Is that sort of in that sort of 70% to 80% range that you've been acquiring at recently, higher, lower? How should we be thinking about that?

Samuel A. Landy
President, CEO & Director

Brett will answer that. Go ahead, Brett.

Brett Taft
Vice President

Yes. So those 2 communities actually have a little bit of a lower occupancy rate. The blended occupancy rate at 63%. One of the properties is at 86%, and the other property is at 51%. The second property is actually an 800-space community. So we believe that, in the long term, we can generate some substantial value.

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

How much do you guys think that you're going to have to put into the properties over and above the $45 million price tag to get them to where you need to be?

Brett Taft
Vice President

Not as much as some of our previous acquisitions, going back a few years. As we mentioned on a couple of earnings calls earlier this year, the quality of our pipeline is a lot higher than it has been in the past. So our primary investments will be in the rental homes and some capital improvements and paving streets and upgrading the infrastructure but not nearly as much as some of the previous acquisitions.

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

Okay. And then what's the cost that you expect to spend to develop the 500 new sites that Sam was talking about delivering this year?

Samuel A. Landy
President, CEO & Director

Yes. Sam here. That's going to be approximately $60,000 per site.

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

Okay. And then that's just the site itself. That doesn't include putting a home or anything else on it, right?

Samuel A. Landy
President, CEO & Director

Correct. Right. That's having the sites ready for a house, yes.

Eugene W. Landy
Founder & Chairman of the Board

If I can just add to that. We try to do it 2 ways. We build a park for $50 million, and then we hope to sell the homes and have the homes in the park where we could also make it an all-rental park. We're very proud of our Memphis Blues project in Memphis, Tennessee, and that's the first park ever built that's all rental. We build a park that costs $50,000, $60,000 a site, and we buy homes for $60,000 each. We've created a living unit of over 1,000 square feet, 3 bedrooms, 2 baths for a combined price of less than $100,000, sometimes a little more than $100,000, which, if you know the cost of housing today, it's about $250,000 to $300,000 for an apartment, and that's only 1 or 2 bedrooms. We are 3 or 4 bedrooms.

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

While you're on that asset, where is occupancy there today? And how much are you sort of adding a month there?

Samuel A. Landy
President, CEO & Director

So Memphis Blues, the first phase was 37 lots, which is 98% occupied or something like that. And we'll be building the next 50 lots. It's under construction right at this moment, and demand is very strong.

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

And I just wanted to say that the first phase was 100% filled up within less than 12 months.

Eugene W. Landy
Founder & Chairman of the Board

And there is no government program to put a mortgage on the land and homes, but we are working with the government. And we are very confident that we're going to be a pioneer and get a government-sponsored entity to give us a very nice mortgage on both land and home, but we have to complete the second phase and get the occupancy.

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

Okay. And then when you guys are sitting there today, thinking about the communities and the rental homes that you guys are likely to purchase and install in your communities this year, et cetera, where is the internal sort of bogey for occupancy in the portfolio 12 months from now when you're reporting year-end '19 results? I mean, how significant could the bump wind up being in -- over the course of the year?

Samuel A. Landy
President, CEO & Director

So last year, we added 800 rentals. When you count the acquisitions, that's 900 homes. But we also removed approximately 700 homes total from communities we owned or acquired. That's a major benefit. Those old 1970 homes needed to be removed. It's a major upgrade to the community to take those out and replace those with new. And I think we did exactly what we projected to do before 2018 began that we would raise rents 4%, which amounts to $4 million, and we would add 800 rental units and go ahead $6.4 million in revenue there. And I project we'll do exactly the same for 2019. And in fact, the December rent roll indicates that we're already going to be about $9 million ahead at year-end, which is right on target.

Eugene W. Landy
Founder & Chairman of the Board

If I can add one other thing. We've really upgraded our communities. We encourage all our investors to go on our website. We have videos. Some of them are done by drones and the parks are first class, and we really encourage everybody to see the properties that UMH owns today. I can assure you the quality is much better than it was 3, 4 years ago.

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

Okay. And then one for Anna. Obviously, the securities portfolio balance has bounced back given the first quarter REIT market rally. Have you guys invested any incremental capital into the securities portfolio since December 31?

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

Very minimal. What we do is we do, do our dividend reinvestment plan, which we reinvest our dividends back in Monmouth. That's pretty much all that we've done since year-end.

Robert Chapman Stevenson
Janney Montgomery Scott LLC, Research Division

Okay. So no new stocks added to the portfolio, just -- in the case of dividends.

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

Minimal. No new names.

Operator

[Operator Instructions] Our next question comes from Craig Kucera from B. Riley FBR.

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

Wanted to ask about the same-store operating expense increase, which was pretty sizable. Can you provide a little additional color on that?

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

Sure. On same store, we had -- in quarter 4, we had a little bit of an increase in insurance expense. What have happened is we had midyear renewals, so -- and of course, that went up a little bit. So in Q3, it went up. And then in Q4, it went up a little bit more because we did also have some audits which came in, in Q4. We also had an addition -- year-over-year, we had additional 600 rental homes that we added in same store, so that increased. And also, if you look at our bad debt, it increased. But if you look at the total, if you look at it as a percentage of rental and related revenue, that total was 1.25% versus 1.29% in the prior year.

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

Got it. So it doesn't sound like there was any meaningful tax true-up or anything. It was other items, correct?

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

No. That's correct.

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

Got it. And just to follow up on the acquisitions. Are you still on track to close those in the second quarter or kind of when are you expecting to get those closed?

Brett Taft
Vice President

Yes. It's hard to say exactly. We're hoping for the end of the second quarter, but it may push off into to the third quarter.

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

There's loan assumptions involved, so it's hard to say because of that.

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

Got it. And with the large pickup in sales, certainly in the back half of the year, is first quarter still trending very strong?

Samuel A. Landy
President, CEO & Director

Yes. An important point, going back to the fourth quarter, our applications were up 21.5%, and our approvals were up 29%. And we see the trends continuing. We see sales strengthening. But as good as sales are, nothing today compares to what things were like in the 1990s or 2002 through 2006. We still haven't come anywhere near that type of activity that we used to have. On the rental front, the acceptance of the product by the customer is fantastic, which is why we rent 800 homes and maintain our 92-plus-percent rental home occupancy. So I'm more excited -- we're always excited about sales. But the rentals, people really have to understand that because of the improvements of the quality of the house that we are -- we have a better product than ever as rental housing, and it's being accepted and doing fantastic.

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

Got it. And just one more, moving to the securities portfolio. Do you have a sense of what the current mark is relative to where you guys were in the fourth quarter as far as a recovery in value?

Eugene W. Landy
Founder & Chairman of the Board

We're up about 16% from the year-end, which was low. We were up more than that, but it's drifted off now. As Anna pointed out, the portfolio was very volatile. The swings can be millions of dollars at the end of the day. But under these new accounting rules, we expect the first quarter to report a profit on the securities from the low point December 31.

Operator

Our next question comes from Blake Gesik from University of Oregon Investment Group.

Blake Gesik

My first question is about the mortgage payables moving forward and looking at that. So the next 3 years, the average weight cost of mortgages are substantially higher than the weighted average cost. I was wondering if the -- how the plans for the refinancing of those mortgages are looking and just the thought process moving forward on those loans?

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

Well, we have approximately 4 loans that are coming due in 2019 and 2020, and those loans are at an average -- weighted average interest rate of 5.9%. So we expect that when we refinance those loans, we would like to use, again, either one of the GSEs, either Freddie or Fannie, and they will qualify. But we expect that when we refinance those loans, we will have reduced interest rate. The interest rate went from

4.29% to 4.24%, so it's a minimal -- the other way around, 4.24% to 4.29%. So it's a minimal increase in 2018, but we expect that we will maintain that because the new loans, the old -- the loans coming due are at 5.9%.

Eugene W. Landy
Founder & Chairman of the Board

If I can add to that, and Anna does a wonderful job on the mortgage refinancing. The government-sponsored entities are very important to the manufactured housing industry, and they are very important to providing affordable housing for the nation. And so we think -- these programs exist today, they're not anything we're proposing for the future. They are great programs. And if they continue, our projections are that we're going to be able to refinance our parks substantially over the next decade. In fact, that's one of the main things we do -- we plan to do is to fill our parks, get rental increases over a long period of time and use the government programs to recycle our capital back to us and our shareholders. And that's -- it's so important that continues. We don't think that there's any great chance that the government-sponsored entities will be changed because so many other industries and the housing industry depend on them as well. But it is a real plus for us, and it's really important for people to understand that when they analyze UMH Properties.

Blake Gesik

Got you. Sounds great. Good stuff. So another question I had is about the securities portfolio and looking forward. Since the accounting changes with -- at fair market value, are you seeing that you're going to take more of a defensive stance moving forward with the portfolio given the increased volatility in the market and maybe even consider moving some of that into the fixed income market? Or are you exclusively going to [long] REITs exclusively in the portfolio? What's the thought process just to maintaining the liquidity aspect and the actual capital preservation moving forward?

Eugene W. Landy
Founder & Chairman of the Board

We've maintained the -- our first position is we keep the securities for liquidity. Our second position is that we really believe in REITs. We think real estate investment trusts are liquid real estate. And that if you invest in REITs, you're buying properties. And we're very bullish on properties. And for the whole REIT industry now, and it's happened before over the decades, REITs are now selling at a discount from their net asset value. That's not unusual. And at times, they sell at discounts of 5% to 10%. And at times, they sell at premiums of 5% to 10%. What is a little unusual right now, we've had a couple of portfolio of companies that have really not done well, and we're watching them very closely. But we've been in these portfolios a long time. And our overall history investing in REITs is that in the long term, you'll do as well as owning the properties directly.

Blake Gesik

Got you. One last question for Anna.

Eugene W. Landy
Founder & Chairman of the Board

[And we've made a new] change in the portfolio. This is a small percentage of the company. We are working on the pipeline for acquisitions, and we are working on building parks, and we are investing in rental homes. And so our capital structure is very important to us. And the primary thing is to have the capital to buy the homes, to improve the parks, to make acquisitions and to expand some of the existing parks and all those capital needs. They may run $100 million, and the changes in the securities portfolio would be a small fraction of that.

Blake Gesik

Got you. Perfect. So Anna, one last question for you before I get off. So I was wondering if there'd be any possibility to break down the rental and related income on what that split looked like for that year to say this portion came from rental units, this portion came from land leases, and the rest of it came from other utility fees or something along those lines. And just trying to get a better understanding of what that distribution looks like for the entirety of that line item because that's not working out for me.

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

Well, we have in our supplemental and also in our investor presentations how much -- how many rental units we have and how much is the average rental income of each unit, and we have approximately 30% of our rental income is derived from our rental units. So I think that would be a good number to use.

Blake Gesik

Got you. So you're hoping to maintain that number into the foreseeable future? Or are you going to try to increase that given the number of sites and also higher occupancy?

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

Given the number of sites and given that we are -- we intend to increase our rental portfolio of -- by approximately 800 units a year, we want to put 800 new units into our communities, I believe that, that will increase. Just one last thing, we only have 3,900 vacant sites, so...

Operator

Our next question comes from Brian Rohman from Oston Partners (sic) [Boston Partners].

Brian Rohman
Boston Partners Global Investors, Inc.

A bunch of different questions. The securities portfolio, I think it was Gene who referenced this. He doesn't have to answer the question. Whoever wants to answer the question. There were several securities that have been under pressure and underperformed. Could you just mention those names?

Eugene W. Landy
Founder & Chairman of the Board

No. We only have an hour to discuss UMH. We have 12 companies in the portfolio. They are public companies, they do their own reports. We read all those reports. We circulate them, and there are 5, 6 analysts that cover each of the companies. And so for those who think it's material, you're really welcome to get the names of the companies and do your own research in the companies. But it's just not practical for me to just...

Brian Rohman
Boston Partners Global Investors, Inc.

No, no, no. You misunderstood. All I'm asking is what are -- I know CBL is one of them. What are the other like 2 or 3 names, just the names will do.

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

We have a listing of our total portfolio in our 10-K on Page 78.

Brian Rohman
Boston Partners Global Investors, Inc.

Okay, fine. I'll go there.

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

Thank you.

Brian Rohman
Boston Partners Global Investors, Inc.

The preferred debt that you've issued, you issued some more in '18. Do you anticipate using that as a financing vehicle in '19?

Eugene W. Landy
Founder & Chairman of the Board

Absolutely. When you study REITs and study outperformance, we think one of the pillars of capital should be preferred, and it gives you leverage. And normally, with leverage, you increase risk. And normally with leverage, bad things can happen. But with -- when you issue perpetual preferreds, you get all the benefits of leverage and the risk is nominal. Even the change in interest rates in 5 years are callable. We think preferreds are one of the -- from a financial engineering viewpoint, a wonderful vehicle for the investor. They get a higher rate of return. And if the market is there, they get liquidity, even though they're perpetual. And from the point of view of the REIT, we get permitted capital at a fixed rate, and we're just enamored of it. And we know some of the best-run REITs, such as Storage -- Public Storage has had a wonderful record by concentrating on using preferred as a growth vehicle. So the market right now for the last year has been virtually closed. I think there was -- at one point, there were only 4 public REITs that issued preferred, and there were probably 40 that called preferred. So we really think the market's going to open up, and we hopefully will be issuing a preferred. But we're always sensitive to rates, and we also want to take the money down at approximately the time we're going to use it.

Brian Rohman
Boston Partners Global Investors, Inc.

So you're saying right now it's relatively difficult to issue preferreds. Is that what you're saying?

Eugene W. Landy
Founder & Chairman of the Board

I'm saying what I said. The rates, the difference between what the public companies want to pay and what the investors want to pay. And when you get that, you get no new issuance. It's if we wanted to pay a higher number, a preferred with a 7 in front of it instead of a 6 in front of it, we can issue preferred tomorrow. But we would prefer to issue -- what did we do in the last preferred, at 6.25%?

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

6.375%.

Eugene W. Landy
Founder & Chairman of the Board

Yes. 6.375%.

Brian Rohman
Boston Partners Global Investors, Inc.

Yes. And if you could do that -- and you're saying today, it would be significantly higher.

Eugene W. Landy
Founder & Chairman of the Board

No. It will be higher.

Brian Rohman
Boston Partners Global Investors, Inc.

Okay, fine. And acquisitions for 2019, I'm sorry, did you give a number of what you expect? And is it also driven by your access to the preferreds market?

Eugene W. Landy
Founder & Chairman of the Board

No.

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

No.

Brett Taft
Vice President

Yes. I'll just follow up on that. So we have 2 communities under contract right now. It's about 1,200 homesites, 63% occupied for a total purchase price of $45 million or about $37,000, $38,000 per bed.

Brian Rohman
Boston Partners Global Investors, Inc.

Okay. So that's what's on the table right now. And you have liquidity to do that, regardless of whether or not you can finance it in the preferreds market. Is that correct?

Brett Taft
Vice President

That's correct.

Brian Rohman
Boston Partners Global Investors, Inc.

Okay. And then just one other quick question. You made reference to this, and I know this is on Page 14. Is that -- you said you basically look at 4 homes per acre. Is that the right number?

Samuel A. Landy
President, CEO & Director

Well, if we're building sites and you ask what do we think the yield will be, it will be at about 4 homes per acre, correct.

Brian Rohman
Boston Partners Global Investors, Inc.

And then the acquisitions that are listed on Page 14, they actually line up exactly with that number, about 4 per acre.

Samuel A. Landy
President, CEO & Director

And I'll point out while you're on that subject that Newmark Knight Frank just wrote the manufactured housing white paper of 2019, and they rate communities based on star rating, 5 star, 4 star, 3 star, 2 star, 1 star. And one of the things they look at is sites per acre, with 5 star being 4 to 7 homes per acre, 4 star being 6 to 9 sites per acre and 3 star being 7 to 10 sites per acre. So almost all of UMH communities are 4 to 5 star. And to the extent someone might call one of our communities that we acquire a 3 star because of the age of the homes when we acquired it, we convert those communities to 4- and 5-star communities through our capital improvements and our addition of rental.

Brian Rohman
Boston Partners Global Investors, Inc.

And do you think -- and then last question and I can follow up later. Do you think you get higher rents per property with that lower density?

Samuel A. Landy

President, CEO & Director

Well, so the #1 factor in the rents is location because I have seen -- take Florida or California, more than 20 homes per acre with the highest rents I could ever dream of. So location is more of a factor. But then the density, that could go to the quality, you could increase the rents. If lower density, could be higher quality, you could increase the rents.

Operator

Our next question comes from [Tony Gleason] from [Carnegie Lake Capital].

Unknown Analyst

Glad to see that sales have turned up profit, that's a great sign. A couple of questions. I was a little confused on the share count. On Page 2 of the presentation, it was 32.6 million, Page 8 is 35.4 million and I'm looking at Bloomberg right now, it says, 37.8 million. So I'm trying to figure out what's the actual share count as of year-end 12/31.

Eugene W. Landy
Founder & Chairman of the Board

Last I looked, which was moments ago, it was 38 million shares but Anna is looking in the supp.

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

You're talking about 12 -- if you're looking at Page 3 of the supplemental, the 32.7 million was as of 12/31/17.

Unknown Analyst

I'm sorry, okay. And the 35.4 million on Page 8?

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

And that's the weighted average shares outstanding, it's not the shares at the end of the year. That's the weighted average over the whole year of 2017 and 2018.

Unknown Analyst

Got it, okay. So total outstanding right now is 38 million.

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

Correct, well, as of 12/31.

Samuel A. Landy
President, CEO & Director

And Anna, that's a different number, because I just opened the supp, 36,871,322...

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

That's the weighted average outstanding for the year.

Samuel A. Landy
President, CEO & Director

Okay. Okay.

Unknown Analyst

Okay. So that if you're issuing shares towards the end of the year then those will be counted as less because they're not fully in the year number.

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

Correct, it's averaged.

Unknown Analyst

Okay. Can you grow the company in 2019 without issuing equity?

Eugene W. Landy
Founder & Chairman of the Board

When you say can we, our policy is to be careful and to be safe, and if we want to issue $100 million or $200 million in preferred, we really have to have a good capital base and coverage and so we've continued to issue common stock through the dividend reinvestment shareholder investment plan because that gives us a continual flow of capital to buy these homes and to do the expansions. We need $100 million budgeted for 2019 and we could probably borrow the $100 million. But prudence dictates that we add some capital and hopefully, as I stated, we think we're going to -- the preferred market's going to open up and we're going to get a very nice infusion of capital in the REIT preferred securities.

Unknown Analyst

Right, okay. The share count keeps growing at about the same rate as revenues so we're never getting the traction on a per share basis so I think that's really the crux of my question.

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

Well, our normalized FFO did go up this year 13% -- 12%, 13%. So we are making progress in that respect. We are being able to use the equity that we have generated, the equity that we have raised in order to generate positive earnings.

Eugene W. Landy
Founder & Chairman of the Board

It's just a long conclusion. We are hopeful that over the next 3 to 5 years, we're going to go to 100% occupancy and we're hopeful over the next 3 to 5 years, we'll have 20% higher rents because the value of these homes, we rent them $750, $800 a month and the competition is $1,100 a month and the cost that we produce these park sites and homes is much higher. So we think we can really justify much higher rents. So with full occupancy and with higher rents, the company is going to generate a great deal of more income but we're careful not to issue too much more capital but on the other hand, we want the ship to complete its voyage safely and so we keep issuing equity so that we don't get ourselves in a position where there's a shortage of capital. I note that we watch what the other REITs do. Some REITs have deleveraged $1 billion, $2 billion and cut their earnings $50 million, $100 million. Other REITs have leveraged up. We want to keep the leverage, which we think is low leverage, approximately where we are now on a percentage basis. So we don't think that when we finally reach our goal of full occupancy and higher rents, we think the per share numbers will be better, not the same.

Unknown Analyst

Okay. Well, I'm hopeful the stock goes to 20 as well but I think issuing more equity makes it harder to do. That's all.

Eugene W. Landy
Founder & Chairman of the Board

It does in one respect and the other is though that everybody's bullish on the manufactured housing industry. Two of the best performing REITs, of course, Sun Communities and ELS, and they sell at, I don't know, 24x earnings. So if we can make $1, we are hopeful that someday with that 24, it will be $20. But our small size is a handicap. We're very pleased to see that so many people write favorable reports on the industry and what a great industry we're in and that affordable -- the solution to the affordable housing crisis is manufactured homes. And then they say, well there is only 2 REITs -- 2 public REITs because we haven't reached the size that -- and cross the threshold. So while issuing more stock under conventional economics and securities studies may seem to be not the thing to do, on the other hand, the increased size gets us closer to be included with the other 2 when they write these favorable report.

Unknown Analyst

Well, I hear you. Second, REIT portfolio creating a lot of angst and attention and certainly last year wasn't a particularly good year for the portfolio. Is there -- will management's -- awkward question here, will management and directors' compensations be affected given the $50 million loss?

Eugene W. Landy
Founder & Chairman of the Board

Well, let me answer it this way. We'd be very happy if this company where the earnings would be done on -- what is the European accounting system called, Anna?

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

It's fair marketing accounting.

Eugene W. Landy
Founder & Chairman of the Board

Fair market accounting. I mean, you want to use fair market accounting and fix our revenues, we'd be very happy to do that. We have 20,000 sites. They go up in value, $100 million and the securities went down $24 million. So we think if you want to go to fair market accounting and measure management performance, we'd vote for that too.

Unknown Analyst

Well, okay, I'll take that as a no. I think it is worth considering that as a signal to shareholders that you share the pain in portfolio loss. That would be my perspective, but I appreciate you answering my question.

Operator

[Operator Instructions] Our next question is a follow-up from Craig Kucera from B. Riley FBR.

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

Just a quick one here. You mentioned the shorter turnaround period on your recent acquisitions. I think, historically, it's usually been about a 3-year time frame from when you buy a new acquisition and have to rip out some of the old homes, et cetera. Does that get you down -- are you talking maybe about like a 2-year time frame or can you just elaborate a little bit on how quickly you can bring those up to a stabilized level of occupancy?

Brett Taft
Vice President

Yes, again, it does all depend asset by asset. They're all going to be different. I think if you look back at 2015, 2016 and older, those were probably your 3-year turnaround period. But if you look at 2017, which unfortunately, just missed out on our same-store numbers, we've really generated some substantial increases in occupancy revenue and ultimately, NOI and property value. So I think 2 years is probably a closer estimate on those but again, we ultimately will continue to evaluate all acquisitions whether it be a 2- or a 3-year turnaround period.

Operator

And ladies and gentlemen, at this time, we'll conclude today's question-and-answer session. I'd like to turn the conference call back over to Samuel Landy for any closing remarks.

Samuel A. Landy
President, CEO & Director

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

Operator
Ladies and gentlemen, the conference has now concluded. We do thank you for attending today's presentation. The teleconference replay will be available in approximately 1 hour. To access the replay, please dial U.S. toll-free at 1 (877) 344-7529 or internationally using (412) 317-0088. The conference ID number is 10127590. Thank you, and please disconnect your lines.