UMH Properties, Inc.

Keegan Carl: Good morning, everyone. I'm Keegan Carl with Berenberg Capital Markets, and I'm happy to host for UMH. Sam, would you like to introduce the team?

Samuel A. Landy: Sure. I'm Sam Landy, President and CEO. We have Eugene Landy, our founder and chairman here, creator of UMH Properties. [APPLAUSE] Brett Taft, our Chief Operating Officer, and Anna Chew, our Chief Financial Officer. So thank you.

Keegan Carl: Thanks, Sam. So, I guess, to kind of kick things off here, can you give us a bit of background on your story, starting with your history of the company and how you've been able to grow over time?

Samuel A. Landy: Back in 1968, my father discovered manufactured housing. It's a quality way to provide affordable housing. We started out in New Jersey, and the original communities, Woodlawn, in Eatontown, and Southwind, in Jackson, we still own them today. We've watched all the cycles that those two communities and other communities have gone through when they were built with metal on metal homes. And over the years, these homes became 50 years old, relatively obsolete compared to the homes of today. And in both of those communities, we were able to remove old homes, purchasing them from residents, replacing them with new homes, earning a profit that paid for buying the old home, removing the old home, putting the brand new home in. And if you looked at Woodlawn in Eatontown or Southwind in Jackson today, 80% to 90% of the community would be less than 10 years old, even though the communities were built in the 1960s. And so, we acquired a number of communities over a number of years, so that we were spread out through Pennsylvania, Ohio, New Jersey, and New York. And we saw the various cycles.

We're quality, affordable workforce housing. And when the country lost the coal, and steel, and tire jobs in Western Pennsylvania back about 2002 on, and we saw vacancies in those communities, and the owner of those communities wasn't able to make capital improvements, they weren't able to replace old homes with new, and nobody had thought of doing rental homes yet, we saw those communities with the vacancies and realized buying those is much better than trying to get approvals to build them. It was very difficult at the time for us to get approvals to build communities, yet we could expand by acquiring communities that needed capital investment. And we did that successfully for a number of years. We also did that in Nashville, Tennessee.

Another cycle manufactured housing had was the loss of retail financing. The old model was the resident owned the home and rented a lot. But that requires the person to get financed to buy that home. And even worse today, once somebody owns a house, if they want to sell it, they have to get their buyer financed. And those issues-- the financing of the new buyer and the financing of the retail, or the financing of the second buyer-- are probably the two toughest issues in the industry. And we solved that in 2011 by going to rental homes. And we started out adding 100 rental homes in a year, then 300, then 800 homes a year. And the rental home takes the friction out of the transaction. The buyer no longer needs 10% down, they just need one month rent and one month security deposit. They need 30% of their income to cover the rent.

Which means with household income of only about $30,000 per year, they can afford most houses we rent. So our residents, their incomes vary, but from a low of $30,000 household income, we've seen people earning as much as $450,000 living in our communities.

But this removing that friction to obtain the house-- so we set up the rental house, we advertise it, we get the word of mouth out there that there's a quality, affordable, three-bedroom, two-bath, vinyl-sided, shingle roof house, on its own 5,000 square foot lot, with your own driveway, your own shed, you have your yard-- you could see all of this at umh.com and our drone videos. And so it generates waiting lists just about everywhere, so that our problem for 2021 was we just couldn't get enough homes from the factories. The factories are slowed down.

Prior to that time, we were adding 800 homes per year. A few years ago, we had an obsolescence issue that we were removing about 400 of these metal on metal homes, adding 800 homes, selling about 150 new homes. So you'd go ahead about 600 homes per year. The obsolescence, we got to the end of that. We had removed most of the old homes, so that more and more of the 800 new homes, 150 new home sales, more of that was becoming positive income. But then 2021 we only added something like 450 occupied rentals. Not because of a lack of demand, but because of a lack of supply.

So we know that we have a model that very much works. If you were talking about Walmart or Lowe's, you've got a company with a model that works. And the model that works is quality, affordable housing through communities and factory built homes. And we know how to provide those. You could provide them for sale or for rent. Both models are profitable. We can make money selling a house. We can make money brokering a home sale. We can make money financing a house. But you could also make money renting a house.

And so, the issue becomes, how do we grow? And the answer to that issue is we've intentionally, over many years, acquired the vacant land adjoining our communities. And that's the easiest place to expand. So we believe we could build 400 lots per year for the next five years on land that we own with no problem. Additionally, we entered into the joint venture with Nuveen to develop three communities in Florida. And we got the message out to developers that they can earn a profit taking land, getting it engineered, getting approved, and contracting it for sale to us. And it's early in that process, but we've seen a lot of interest and believe that we'll be able to contract for potentially 1,500 lots to be built. And so, we have a method of getting into other states, growing our ability to provide quality affordable housing. We also have approximately 3,400 vacant existing lots, where we'll continue to add these 800 rental homes and sell homes when we can-- about 150 new home sales.

So that's about the story for us. And most importantly-- I should get the most important part-- besides creating this social company that provides quality affordable housing, we originally did it when capital was not available. So how did we get the capital to buy these turnaround properties and get the rental homes? Well, we issued 8 and 1/4 preferred, then 8% preferred, than 6 and 3/4, then 6 and 3/8. And we pioneered Fannie Mae accepting that a manufactured home for rent is a quality affordable housing product that under duty to serve Fannie Mae and Freddie Mac should finance. And so, they accepted. They changed their

regulations in regard to our request and accepted 60% rental homes in a community, so that we were able to borrow $100 million at 2.62% to repay that 8% preferred. So that was extremely successful. Further, we've convinced Fannie Mae to provide $25 million in direct financing against rental homes at approximately 4.25%. So they are directly financing our rental homes now. And we only financed 1,100 homes with them. We own over 8,800. And the current program is Fannie Mae can finance rental homes in communities that they have the mortgage on. But we believe we can take that further, and why not just finance the rental home whether or not they have the mortgage on it?

So we continue to work on additional new programs. We're going to Washington DC. We've set up a house there now on the Great Lawn. It's the second time we've done it, where the senators, congressmen, HUD Secretary, will all be there to see. It's called Homes on the Hill. And you UMH is there now. And part of our purpose is to create new financing package for both the sale of homes and the rental of homes.

So that's really where we are today. We're going to redeem $272 million in preferred stock in July, where we already have the money on hand. So that swing will be $270 million earning nothing to $270 million reducing the cost 6.75%. That amounts to about $0.14 in FFO per share. It's actually when you go from 0-- the money earning nothing-- it's about $0.30. But if you use the spread between 4% dividend yield and 6.75%, it's about $0.14. So that's where we are today.

Keegan Carl: Yes. Thanks for that Sam. You know, kind of taking a step back here, maybe just give us an update on the state of affordable housing in the country and how you kind of see the issue getting solved.

Samuel A. Landy: There's at least a seven-million unit shortage of quality affordable housing in the country. And all housing is local. They've pointed out that in rural markets the crisis can be worse. It's very bad in cities, but who builds affordable rental housing or affordable housing in rural markets? And UMH really believes, from our 54-year history, we had a very good eye on the solution. It's the manufactured house in a land-leased community. In our turnaround properties, we buy the site or the lot for as little as $27,000. So we got that lot for $27,000, and we put this 1,000 square foot, three-bedroom, two-bath house on that lot, which when we began doing it cost $40,000 a house. Today, it's $70,000 a house. So take the $70,000 plus $27,000-- call it $100,000-- who can provide a three-bedroom, two-bath, brand new, energy efficient house -- vinyl- sided, shingle roof, modern kitchen, best appliance packages because the manufacturers are the largest purchasers of appliance-- who can provide that for $100,000? We're the only ones. So when you provide this, we're competing against comparable apartments, conventionally built homes. And the rents we can charge, it's great to keep our rents low. That's what keeps the waiting list and keeps demand. But all we have to do is be below equivalent apartments, so that people will relocate from those apartments into the houses we provide.

And in Sebring, that we just built, we've had three move-ins at $1,750 a month. Now, new construction is different. It's costing $100,000 to build a lot. Plus you're adding $100,000 house. So it's $200,000 per lot. But we're renting the homes for $1,750 per month.

So, we have redevelopment, where we buy the community for the lowest price possible-- could be as low as $27,000, could be $40,000. We have development, which could cost from $70,000 to $110,000 per site to build. And then we add the modern manufactured home, and we have to be able to price it. We want about a 6% unlevered return on the rental immediately, which could be a 9% levered return. But we believe in each market we go to. We look at what apartments cost today, houses cost today, and we see every reason to believe we have that pricing power to do that.

Keegan Carl: So, one of the things you touched on very early on is just about growth. So I'm kind of curious, as far as acquisitions go, how do you source your acquisitions and what's, ballpark, the size of your deal pipeline?

Samuel A. Landy: I'll let Brett answer, because he handles that every day.

Brett Taft: Yes. Sourcing acquisitions, we really don't leave any stone unturned. We've got great broker relationships. We've been in the business for 54 years. We attend all of the MHI conferences.
We've got good relationships with owner-operators, and that's a good source of deals. And additionally, when we target a market, Dothan, Alabama, for instance, we've got a great staff that goes out and cold calls community owners. And every once in a while, you find a deal that way.

As to acquisitions, so far this year we've acquired three communities, 367 sites. Typical value-add strategy there, about 50% occupied. We'll go in there and make our improvements, remove the obsolete homes, bring in a brand new fleet of homes for both rentals and sale. And we should be able to drive 8% yields over a five-year period.

We have two additional properties in our pipeline, two communities, 538 sites, for $27 million or $50,000 a pad on average. And we also have two properties under contract through our joint venture with Nuveen. They are to-be-developed properties in Florida, one in Sebring, one in Punta Gorda. That's 585 sites and $68 million.

Keegan Carl: Just touching on the Nuveen JV, can you give us some additional color on that? Maybe how it came about, and what's the long-term plan for it?

Samuel A. Landy: Brett, go ahead.

Brett Taft: Yes, sure. So we've been talking to Nuveen and thinking about doing something together for quite a few years. All the conferences we're at, we always wanted to find something to do. But we do value-add well. It's our bread and butter business. And we really didn't have an opportunity there. And we started thinking about development. And where the prices of value-add deals were going, we really saw an opportunity to do development with them and limit the impact to FFO. We're a 40% partner in this joint venture. We earn assets under management fees, management fees, and ultimately a promo. So it allows us to do deals that wouldn't really help UMH's earnings in the short term, but gives us the long-term benefit of building best-in-class assets in any market. And ultimately, we have the first right of refusal to purchase

those properties when the joint venture decides to sell them, which could be 7-10 years down the road. So really, what we're trying to do is build a best-in-class pipeline of future acquisitions while earning fees and doing development that we couldn't otherwise do.

Keegan Carl: So changing gears here a little bit, you guys obviously expanded your geographic locations. You now have more of a presence in the South, including the Nuveen JV. Can you give us a bit of an update on how that plan is going so far? And just from a cap rate standpoint, are you seeing similar cap rates relative to your traditional acquisition channels in the Northeast?

Samuel A. Landy: Well, Brett will cover the cap rates more. But we're very excited about the first Sebring community that was built. It's a fantastic-looking community. Again, you could see it on the drone video. We had over 250 people at the open house. And we expect to sell and rent homes. And we think that there's no reason to believe we won't fill more than 50 lots in the first year. So we're very excited about how this is going, how it's working. We're doing additional development, which is the 400 lots we build. We're working on the Coxsackie project 18 miles South of Albany, where we hope to get final approval within the next year to build 360 lots. And this is not in the joint venture, because it existed before that. But this is a quarter mile from the Hudson River, half hour from Hunter Mountain, and 18 miles South of Albany. 360 lots.

And then we have Duck River that's open. Which we did Countryside Estates, South of Nashville. And then we filled that community. It was a turnaround community. We went from about 180 lots to 360 occupied. And then we bought the land next to it, where we're building 360 lots. And that's not part of the joint venture. We counted it as an expansion, even though they're virtually two separate communities. But Duck River has been going fantastically, with profitable sales and filling that development. And Brett will tell you more about the cap rates.

Brett Taft: Sure. Cap rates for stabilized assets very aggressive in the manufactured housing industry. If we look at our typical markets, Northeast, Midwest, if you're in strong locations in New Jersey and New York, you're certainly looking at 3, 3.5% cap rate deals. Midwest-- Ohio, Western Pennsylvania, Indiana-- that'll come up a little bit, probably 4, 4.5, 4.75%. That's all in the stabilized front. We really don't buy too many of those. We do on occasion, but we're looking for acquisitions with upside. We'd prefer to buy a 40, 50, 60, 70% occupied property in a strong market that we know that we can implement our rental model in. So those are really valued more on a cost-per-site basis. We analyze the rents, and we run those numbers over five years. And every deal is different, and there's a different risk tolerance for each one. But generally, we should be able to generate yields in the 8% range over five years. And in the Southeast, stabilized deals, cap rates are even tighter. In Florida, I've heard of a few deals trading with two handles-- 2.5, 2.75% caps. Those are obviously well-located, high-quality properties with strong rents and low expenses, but that's where the market stands. In South Carolina, North Carolina, Alabama, Georgia, you'll see that tick up a little bit, more similar to the Midwest. So in that for 4-4.5% cap rate range. And we'll see if rising rates change that. We're still waiting. And we do expect that to happen, but it hasn't yet.

Keegan Carl: So I think kind of inflation is on top of everyone's mind right now. I'm just curious, could you give some more color on how inflation's impacted your business. Can you maybe quantify the impacts on

G&A and OpEx? And if we think back to previous periods, how have periods of inflation impacted manufactured housing prices and demand for home sales?

Samuel A. Landy: So first we separately meter the water-sewer. We try to directly charge the resident for garbage and taxes. If you pass those things on to the resident, you've passed most of the things that go up the most onto the resident. So we have the labor costs, which are rising for the blue collar worker. It's good for us, because it means our residents are earning more income. It's bad for us, because each maintenance person, to hire a new one costs more, to keep the existing staff happy costs more. But that's been well worth the money. And I believe the operating expenses were up 6.9%?

Brett Taft: Operating, same store were up about 8%.

Samuel A. Landy: So the same stores up 8%. But the rent increase, which we try to keep it to 4%, but add to the 4% revenue the addition of rental homes that we're currently at approximately a 43% expense ratio. So adding these units and having them occupied offsets our rising costs. We believe that the best long-term business plan is to increase the affordability gap between us and other products. So to the extent we can keep that rent increase down to just 4%, we're going to try to do that. We'll make up for the cost increases by just renting more homes and increasing occupancy. So we see increased occupancy and increased revenue, increased sales profits-- all this means offsetting the inflationary cost increase. And the less of that we pass directly on to our resident, the better off we are-- keeping us waiting lists, 98% collection, 95% home occupancy.

Keegan Carl: I guess, Anna, maybe you just want to touch on how it's impacted home sales in the past and maybe what the expectation is going forward?

Anna T. Chew: Well, homes-- I think Brett will probably be able to answer this. Because of the strength of our balance sheet, we're able to keep home sales at the rate that we want it to be. Again, our product is so well received and has so much value, that we're still able to obtain about a 30% increase in profit margins. So we're very happy to be able to do that. Again, we are able to do it, and the problem right now is not demand, it is supply. So once we get supply in, we will be able to continue to increase our sales. And again, it is supply.

Samuel A. Landy: So we finance our home sales at 4.99%, and we've left that rate, even though, obviously, mortgage rates are rising. But we monitor our cost of capital. And because our cost of capital is below 4.99%, we look at ourselves like, say, Kubota tractors. If you buy a tractor, you pay no interest for five years. So to an extent we're subsidizing the interest cost for the customer. But it generates increased sales, increased sales profits, increased occupancy. And we'll monitor our cost of capital. And as long as our cost of capital is below 4.99%-- which it is-- we can continue to finance our home sales at 4.99%. Additionally, we broker home sales, and we finance those used homes at about 7.99%. And providing that financing is increasing the amount of brokered home sales we're doing. And home values are going up, so it's not uncommon to sell a used manufactured home for a $100,000. And we get a 6% Commission plus the finance costs.

Anna T. Chew: And we continue to, as what Sam said, monitor our cost of capital. That's why we have series C and series D preferred stock out there that we anticipate that we will be redeeming. And that will reduce our cost of capital.

Samuel A. Landy: And those redemptions, those are two of the most important things. One, we're sitting on the money. So the reason FFO was down the first quarter is we're sitting on $300 million in cash that's earning nothing. But we raised that $300 million with the Israel unsecured bond deal, with the common ATM, with the loan from Fannie Mae on the rental homes. So all of that gave us this war chest of $300 million to in July redeem $272 million of preferred at 6.75%. So that $272 million will go from earning 0 to saving us 6.75%. Then in January, $215 million in preferred at 6.375% becomes callable. And the question is, where will we get that $215 million? But we have communities that are under-encumbered, that they have existing mortgages that come due, where we can pull out another $100 million beyond what is owed. We have unencumbered properties with no mortgages that we can refinance. We have the $50 million REIT securities portfolio. We have over 7,000 rental homes with no loans against them. And we've pioneered the Fannie Mae lending, and there could be additional bank lending. So all of those sources of capital, if we assume we'll pay 4% and we'll redeem preferred at 6.375%, $215 million, that's another $0.08 in FFO for the following year, just by the recapitalizations. So we have all of those things going for us-- our internal growth, our lower cost of capital costs, and our external growth.

Anna T. Chew: I just wanted to add, we also have available lines of credit. We have three lines of credit for our notes receivable, for our rental homes, as well as unsecured lines of credit. We have $70 million-- $80 million available on those lines of credit. And we have $60 million that can be additional $60 million on an accordion feature. So we do have ways of redeeming our preferred D in January.

Keegan Carl: So given that you guys are a REIT, obviously yield's always a key talking point. You've increased your dividend now two years in a row. So I guess what was the driver of this increase, and can we expect further dividend increases going forward as your AFFO per share grows?

Samuel A. Landy: Well, the first driver was we got FFO to exceed the dividend. So that was the opportunity to increase the dividend. And again, that was primarily the redemption of the $100 million in preferred going from 8% to 2.62%. That savings was phenomenal and increased earnings so that we could increase the dividend. And that is certainly expected to happen again in 2023. As the preferred are redeemed, as the FFO rises above the dividend-- we believe the best corporate governance is returning capital to shareholders, and that's what we'll do.

Keegan Carl: One other large question that people are probably curious about, you guys recently did the Israeli dual listing and bond offering. I'm just kind of curious. Could you give us some more color on the rationale for doing this and what were the costs associated with it?

Samuel A. Landy: To be listed on the Israeli exchange is only $30,000 per year. So that's great. The coverage and the amount of presentations we did-- we did something like eight days of presentations with

multiple people on the line-- $100 billion insurance company, which was a surprise to me that there were such large institutions in Israel. And they actually have a bid system, where people bid how many dollars at what rate they want to give us. So it's a very efficient market to obtain unsecured debt.

It also resulted in us achieving corporate ratings. So, for the issue we had a AA- rating, and for the company we have an A+ rating. And those are ratings that we got from Standard and Poor's overseas. And there they use International Accounting, which includes appreciation of assets, which we don't have here. So when somebody looks at we have $2 billion in assets in our balance sheet, if those assets are going up in value 4%, that's $80 million that doesn't show up as income on our income sheet in the US. But in foreign accounting, that does show up. So they see that, and that's how we got the investment grade rating, and that's how we were able to do the 4.72% unsecured debt issue in Israel at $100 million. So we're very happy. Additionally, the potential new shareholders-- foreigners in every country are very interested in US real estate, interested in yields, interested in dollar-backed investments. And so, we can provide all that to the Israelis. I'm going to Israel June 18th to do presentations. The original presentations were online for debt investors. This is for people who may be interested in investing in UMH through the stock market.

Keegan Carl: Great. So that's all I prepared. Is there anything else we haven't covered that you'd want to convey to the audience?

Samuel A. Landy: No, but we can take questions. Yeah. Go ahead, yes.

Audience: Could you talk about competitors in the acquisition market [INAUDIBLE] a lot of new entrants out there [INAUDIBLE] July [INAUDIBLE]. Talk about pricing and what you're seeing out there, how it's changed.

Samuel A. Landy: No, the competition is substantial. And for a very long time, we had an open field for the turnaround properties. Really, we were the only ones doing them. When we did Nashville, I don't know that there were many bidders if any. And those were great, great acquisitions. And we've looked at acquisitions today, where they're bid up. So a turnaround property might cost $70,000 and you have to spend $20,000 in improvements. So you're in a turnaround property for $90,000, when we can build a new site for $100,000. So that's the decision to build new rather than bid up the turnarounds when somebody else is bidding on them. And so, there's a multitude of different players. But that's what happened. Did I miss anything?

Brett Taft: No. Basically, most of the big names are in manufactured housing and trying to grow a manufactured housing portfolio. And they're trying to scale it. Which, to get scale, you need to be aggressive in the acquisition market. You're really going to see some of the larger portfolios trade at prices that are well in excess of what we could do on a one-off basis.

Samuel A. Landy: Yes.

Audience: On the homes you're building, can you speak about the impact of inflation [INAUDIBLE]?

Samuel A. Landy: So we buy the homes from the factory, and the factory builds them. But again, eight years ago we were buying the 1,000 square foot, three-bedroom, two-bath house for $30,000 with $10,000 set up costs-- so $40,000. Today, it's closer to $80,000 to complete. And so, the manufacturers have increased material costs, increased labor costs, and they have delays. But you know that is inflationary and an increased cost for the manufacturers. But if you were building apartments or conventional houses, you have equal percentage increases. So their homes have gone from costing say $300,000 to build-- it depends what number you start at-- but they have the same percentage increases that we have. And because we have a lower cost product, it has less impact. People's wage increases are allowing them to afford the product, whether it's UMH or any of the other retailers, communities, our residents are paying the rent 98% collection. They're absorbing the rent increases, absorbing the cost increases. So we remain the most affordable product there is, even though we've had these inflationary increases. Yes.

Audience: Can you just talk about what percentage of new homes are manufactured homes? How does that compare historically way, way, way back? [INAUDIBLE]. And then, where do you think that could go, given [INAUDIBLE] financing alternatives from GSEs?

Samuel A. Landy: So right now we're at MHI Homes on the Hill, and President Biden and HUD Secretary Fudge are very much working on how do you reduce the zoning barriers and how do you increase the availability of affordable financing. So in the 1970s, when there were high interest rates and high inflation, I've read shipments were as high as 500,000 units. The number I'm more familiar with is 350,000 units. You're down to 100,000 shipments per year. Maybe it's getting up to 110,000 shipments per year.
So from 2002 to 2009, you lost the distribution network of dealers who used to sell the manufactured homes, and you had a number of manufacturers go out of business. So the distribution pipeline, the distribution system, as well as manufacturers, there's room for additional of both-- additional manufacturers, additional retailers. If they add those and you can get the approvals to build the communities, again, we're competing against apartments. And look how many apartments are being built-- but they don't build any apartments for $200,000. So we're the only one who provides a $200,000, 1,000 square foot, three-bedroom dwelling unit. So there's ample room. You can't do this in cities because you need vacant land. But wherever you have 50 acres, and water, and sewer, you could build 250 lots. So there's plenty of room to build much more communities than have been built every year for the past 10 years. In the '70s, it was a boom of communities being built all over the country. If you drove around New Jersey, you saw communities being built everywhere in the 1970s. So it could happen again. What stops it from happening is local zoning. They're working on fixing that issue. Customer acceptance is certainly there. The people in manufacturing and in chambers of commerce, people who know that they can't grow their business unless they can find a workforce, and you can't get a workforce unless the workforce has affordable housing. So our product is needed all over the country where people want to build new manufacturing plants, new distribution centers. But the approvals are the issue, and hopefully there's a solution to that.

Keegan Carl: Unfortunately, we're out of time. Thanks for everyone's participation.

Samuel A. Landy: Thank you.

[APPLAUSE]

