UMH Properties REITweek 2024 Presentation Transcript

Good morning and welcome to the 2024

REITweek UMH Properties presentation.

I'm John Massocca, the

Senior Research Analyst at B. Riley Securities.

And I'll be moderating the presentation this morning.

With me, I have Sam Landy, President

and CEO of UMH, Anna Chew, CFO

and Brett Taft, COO.

UMH owns 136 manufactured home communities in the Eastern United States

with over 25,000 developed home sites at these properties.

And to tell us more about those communities

and the UMH business model,

I will now hand the floor over to Sam.

Samuel Landy, President & CEO, UMH Properties

Thank you. It's an honor to be here again.

We have Eugene Landy, our Chairman,

who's been in the REIT industry for 55 years.

He founded Monmouth Real Estate Investment Corporation

and UMH Properties.

Monmouth was probably the most successful REIT in history

from its inception to conclusion.

Net lease industrials to investment grade tenants

and UMH is affordable housing through factory-built homes,

first sale or rent in communities.

Over the last five years, we've increased our total revenue

by 60%.

Increased community NOI

by 78%, increased normalized FFO by 99%

and increased normalized FFO

by 99% increased normalized FFO per share by 16%

and raised our dividend from 72 cents to 86 cents.

And so the giant question is,

can we do this again the next five years?

And the answer is yes,

because we're about real estate manufactured home

communities and about location.

We picked great locations, whether it's the East coast

where housing is expensive, the Marcellus &

Utica Shale area, Nashville or the Southeast.

We always work to identify properties

where we could add value

or where demographics are gonna help us add value.

And then we upgrade these communities

with capital improvements and add modern rental homes.

We take advantage of the fact that financing for the retail

customer who buys the home and rents the lot dried up.

But UMH found a solution which was

just rent them the houses.

And that worked so well that from 2011 to date,

we've rented out 10,000 homes.

And many individual community owners can't adopt this model

because they don't have the funds

to make the capital improvements or buy the rental homes

and UMH does.

And then we see people who have the money

but don't have the experience to know exactly how to do it.

And, you know, it's like any other business.

You have to care about the customer, you have

to care about your employees, your team members, your banks,

and UMH has done all of this for many, many years.

So that what appears easy for us,

we watch other people try

and it doesn't work as well for them,

but it does work easily for us.

So, the future is very bright.

Our average home sale price is $162,000

and we mark homes up about 30%.

So about $50,000 from a home sale helps us pay

for construction of the lot.

So, if we build a lot for a $100,000

and make $30,000 on the sale, we're in the lot

for only $70,000.

But we collect lot rent based on a

$100,000 value.

We're trying to gross 7% on that $100,000,

but we only have $70,000 out of pocket

because we made some back on the profit from selling the

home in turnaround properties.

We've bought lots for as little as $30,000 per site.

Probably did $10,000 in capital improvements.

So, $40,000 at a $70,000 house.

So, for $110,000, we have these beautiful three bedroom,

two bath homes on a 5,000 square foot lot.

You can go to umh.com,

you can see our drone videos of the property.

Our presentation is absolutely excellent.

Our team puts that together

and you can see everything about turnaround properties,

how much money we've made,

it's all directly in the presentation.

It's at umh.com.

And again, this has worked time and time again for us.

And we have these 3,000 vacant sites that already exist.

Water, sewer, driveways,

and all we have to do is put the $70,000 house on it

and rent it out for $1,000 per month.

And when these communities are only 80% occupied

or less, they're not efficient yet, it's that last

20% getting from 70% to 90% occupancy,

most of that revenue's profit,

we're only gonna have 30% expenses.

So that's why you see our expense ratio dropping

and you see our performance so strong

as we fill these communities.

One of our challenges is in doing acquisitions.

We don't want to do too much at one time

because we don't want to

slow down our trajectory of adding FFO per share.

So, I'm gonna go over our quarterly accomplishments

and then we'll go to questions

because we have very limited time.

But over the past quarter we increased rental

and related income by 11%.

We increased community net operating income by 16%.

We increased normalized funds from operation by 28%.

And normalized FFO per diluted share

by 10%, increased same property

NOI by 16% increased same property occupancy

by 200 basis points from 85.5% to 87.5%.

Improved our same property expense ratio from 42.3% in the

first quarter of 2023 to 39.6% a quarter end.

Subsequent to quarter end,

amended our unsecured credit facility

to expand available borrowings from 180 million

to 260 million syndicated.

And this is important because note who our bankers are

syndicated with BMO Capital Markets,

JP Morgan Chase and Wells Fargo.

So that's pretty incredible group of bankers.

Subsequent to quarter end,

raised our quarterly common stock dividend by 0.01 cents,

representing a 4.9 increase to 21, 21 0.5,

0.215 per share, or 86 cents annually.

So those are our quarterly accomplishments from which

we continue to grow.

It's important to note, two years ago when we were here,

we had sold or rented every home we had in inventory.

So, our giant problem was

how are we gonna continue our growth trajectory

when we were out of homes

and the factories couldn't produce them?

So, during the course of that year, our challenge, we had

to get the factory to make us homes

that we could sell or rent.

And the factories had closed down from Covid.

So, all of this was very difficult.

One year ago, when we were here,

1,000 homes were delivered to us all at once.

So, $70 million worth of houses.

And when we ordered the homes, interest rates were about 4%.

When we got the homes, they were about 8%.

So that's gonna cost us $5.6 million for the year.

We didn't have to wait for the

homes anymore, they were there.

But now we had to wait for the local governments

for permitting wood or hookups, sewer hookups.

There was a shortage of electric transformers.

So, the first half of last year, we couldn't have the results

that we or our investors were accustomed to

because we didn't have homes to add revenue

for sales or for rentals.

All of these past problems are solved.

The last quarter of 2023 was very good.

The first quarter of 2024 was very good

and it should just continue.

You know, nobody knows is there's gonna be

another covid, so what's gonna happen?

But, but barring circumstances like that,

there's no more wait time.

We're back to just in time inventory.

Factory prices are actually going down.

We're going to Washington, D.C. this weekend

to show duplex manufactured homes in single section

and double, which will reduce the, the resident.

You know, the person, the working person

who needs a house can now get a 500 square foot dwelling

unit from us, probably for as little

as $700 per month brand new

because we'll take the two halves.

700 and 700, get $1,400 from one unit on one lot,

where currently we only get a thousand.

So that's where we are today.

And now questions? Yeah,

We'll open up, we'll open up

for questions if anyone has any.

I may start off just to kind of get things going

with a, with a fairly broad one.

How do your manufactured housing communities differ from

people's preconceived perceptions of mobile home parks?

So, there are as many different views as

of manufactured home communities

as there are different people, right?

So, if, if I said we're in the apartment business, well,

you could picture Fifth Avenue apartments

or you could picture terrible apartments.

Manufactured housing is exactly the same.

There are super high quality manufactured

home communities in the country.

People talk about Newport Beach, California,

where manufactured home sell for a million dollars,

lot rents are $3,000 per month.

The important thing to know is building a home in a factory

is the most efficient, lowest cost way to build a home,

to create value at any price point.

So, our $70,000 house that we buy from the factory for $60,000

and spend $10,000 setting up, so our cost is $70,000.

I wouldn't sell that house to anybody for $70,000.

If I was selling it'd be $100,000.

And I wouldn't, if another community owner said to me,

I want to do rental homes, provide us with a rental,

I'm not gonna provide it to them for $70,000.

We're a licensed dealer.

We're buying that home from the factory

and setting it up for our investors for $70,000.

That's our cost.

If I was selling, it'd be $100,000,

but our cost to create $1,000 per month,

$12,000 per year, revenue stream is $70,000.

Next question is, what's the cost? A lot?

We got, you know, lots that needed improvement

because the prior owner had a tenured downturn.

We received those lots for $30,000

and spent $10,000 fixing it up.

But value is, is what we're selling.

And, and we're doing homes in Maryland that are gonna retail

for $300,000.

And what the customer has to do

is compare, what's a condo?

What's a house? What's an apartment cost?

If you go to redo a kitchen in any condo anyhow,

you're gonna spend $20,000, $30,000.

I get an entire house for $70,000 with beautiful kitchens,

beautiful bathrooms because of the efficiency

of building in a factory, the efficiency

of being the largest purchaser of whether it's sinks,

toilets, showers, whatever appliance it is,

the manufacturers are the largest purchasers, flooring.

So, they pay the lowest price.

They've got a, a workforce that, you know,

comes in every day, rain, shine.

They're, they're salaried.

It's not like building a house on site

where people come and go.

So, we take all of these efficiencies

and reduce the cost of the house.

So, somebody's image of manufactured housing,

and it gets complicated.

If, if somebody lives in a town of million dollar houses

and the only manufactured home community they drive

by was built in the 1970s

and is metal on metal old homes,

they have an image in their head.

But that's not what manufactured housing is today.

And so where you go, if you're in the Southeast, people

consider manufactured homes in

communities a great place to live.

We're having no trouble selling, filling, renting in

Sebring, FL, Columbia, TN,

Nashville, TN.

You know, different people have different perceptions.

Many, many people look at our product

and say, this is a fantastic house at a fantastic price in a

fantastic community.

Brett Taft, COO, UMH Properties

I just wanted to add to that real quick, that if you look

through our presentation, you'll see a lot of great photos

of our assets and our homes and our communities.

And you'll see how high quality they are.

And I, I think that these images alone help

to change the stigma of manufactured housing.

So, I encourage everybody to get through there

and also view our drone videos on our website.

Anna Chew, CFO, UMH Properties

And on page 27 of the presentation,

you'll see some interior shots of the kitchen

and bathroom, which of course everybody looks at.

John Massocca, Senior Research Analyst, B. Riley Securities

Okay, I think we have a couple questions from the crowd.

I'm gonna repeat your questions

just so they end up on the webcast. But just,

, question is, I guess in your presentation you talked

about having communities in areas that are shale areas.

Right now, obviously there's war on fossil fuels

and trying to get away with shale.

What effect is that having on those communities

and this type of, you know, regulatory burden trying

to push us away from fuel?

The, the question was about owning communities in,

in shale areas and kind of the impact of, of ESG on that.

Samuel Landy, President & CEO, UMH Properties

Sure. So that, you know, it's very important

to really understand how shale is working.

The increase in natural gas usage in this country from

the 1960s to date has increased sixfold.

The amount of liquified natural gas being shipped out of the

country, you know, continues to grow at incredible rates.

They're doing pipelines.

So finally natural gas can get to Boston.

The shell cracker plant was completed,

which was a multi-billion dollar, about $7 billion facility

that converts natural gas into plastics.

They have something called panda plants

that converts natural gas to electricity.

So, you know, I know you could read the paper

and believe that

our country's less reliant on Marcellus and Utica Shale.

But in fact, when you go to these areas, the development of

A, wells drilling is still going on.

B, pipelines, three cracker plants, four panda plants,

shipping terminals to the export liquified natural gas.

So, it's actually a very booming industry, booming segment

of the US economy.

And it's what turned these areas around UMH did.

Well, you might wanna look at the long-term UMH stock chart.

It's pretty interesting. In 2006 we did great.

We took 260 lot expansions, sold

out the expansion lots,

had $16 million in sales when we were a very small company

and made $2 million on the sales.

We were doing great. But we ran into the problem that

Jim Clayton talked about in his book, First to Dream.

There was just no place to put the houses.

We, we had no more expansion lots.

We couldn't get approvals to build expansions.

We couldn't find new communities to build and,

and what we were going to, what could we do?

Our sales were gonna dry up. I looked all around.

I could only find one property zone

to allow a manufactured home community.

We purchased it and to this date that community’s not built

because of all the fighting you have

to do to get the approvals.

But meanwhile, we saw in Pittsburgh
and Ohio that those areas had lost population when they lost
the steel coal and tire jobs.
So there were communities with declining occupancy,
they needed capital improvements.
They were becoming rundown
because they couldn't get 100%
occupancy, they couldn't make money.
And we knew the value of those vacant lots.
You could buy them for far less than the
cost of reproducing them.
And, and you couldn't even reproduce them, you know,
even if you could spend the money
because you couldn't find the lots.
So we purchased those communities
and we grew from a very small company to now having
over 25,000 sites buying them in those areas.
And again, as low as $30,000 per site.
We saw in 2011, Marcellus and Utica Shale began.
We saw the people from Texas, Florida, Louisiana.
They were sending up manufactured homes
that were specially built two,
two separate dwelling units in one in one unit that
had air conditioning on the hitch, had offices.
And so the Marcellus and Utica Shale people were
sending up their workers.
We saw that started acquiring communities
and it worked incredibly well.

Brett Taft, COO, UMH Properties

I just wanted to point out that

we've acquired 19,000 sites.

Many of those were in the Marcellus

and Utica shale areas at the time of acquisition.

Those communities had a weighted average occupancy rate

of 73%.

Our same property occupancy rate is 87.5% and growing.

So these communities are experiencing strong demand.

We're filling a lot of units.

because of that, obviously occupancy

and the community financials are improving

and thereby improving the property values.

Question from the Audience

Do you prefer to sell homes or to rent them?

And what percentage of the homes,

The question was do you prefer to own homes

or rent them and what the percentage was in the portfolio?

Samuel Landy, President & CEO, UMH Properties

So, renting homes has a lot of advantages.

Number one, so many people don't understand the

modern manufactured home.

How energy efficient is, what a great home it is,

how great it is to look in a manufactured home community.

So, there's many people who would not come to a community,

put 10% down, and our average cost of a house is $160,000.

So they'd need $16,000 down.

They'd have to be approved for financing
and they have to have faith that they're gonna be able to
resell that house for what they paid for or more.
That's a lot of obstacles to filling lots quickly.
When you rent a home, the person just needs 30%
of their income to cover their rent.
So, they only need $40,000 household income
and one month rent, one month
security plus they have to qualify.
So because of that, we rent out
probably eight homes for everyone we sell.
Renting fills communities quickly.
We only have about a 30% expense ratio on
those new rental homes.
We only raise our rents 5% for existing residents,
but on your rental home turnover.
And we have about 30% rental home turnover per year,
which is still much lower than apartments.
But on that 30% turnover we can mark to market,
which means we get more than a 5% increase.
Can be 9%, can be 10%.
So, and when we first bought rental homes in 2011,
we paid only $40,000 per house and we grossed $8,000.
We grossed 20%.
Well, today replacement costs for those homes is $70,000.
And those exact same homes that we're renting
for $8,000 a year are now renting for over $10,000 per year.
So rentals have worked out fantastically.

And I point out Warren Buffet bought Clayton Homes

and made Jim Clayton a billionaire

to get the finance business.

Rental homes are really the finance business.

The retail customer can't get approved for financing.

We become the owner of the rental home.

In effect, we're in the finance business.

We own all those homes.

We're providing them to people for monthly payment.

It works incredibly well.

Those rental homes will last as long as any other homes.

Now, when we build a new lot,

it's gonna cost us $100,000 to build that lot

and we're gonna collect a rent from that lot.

If I can sell a home for $160,000

and they could be $300,000 in Maryland

and we're gonna make 30% growth profit, so call it 20% net,

we're gonna make $30,000 on that $160,000 home.

That $30,000 gets subtracted from the $100,000

cost to building the lot.

So, we're only in the lot for $70,000,

but we're gonna price the rent at a hundred thousand dollars

value so that, you know, we're making $7,000,

we need about $800 per month

lot rent on a new lot. But it works.

But you're never gonna go as fast with homes that you sell

as you're gonna go with rental units.

When somebody buys a home from us, we give them a lease

to match the loan.

So they're gonna get a 20 year lease

where the increases are only 5% or CPI, whichever is more.

They're gonna pay water or sewer, garbage, taxes

and even capital improvement increases.

But for us to make money and go faster, rental homes work.

But I still like the fact

that we're gonna sell over $30 million in homes this year

and hopefully net 20%.

So I like both businesses and we finance homes still.

Brett Taft, COO, UMH Properties

The, the, the total amount of rental homes

that we have is about 40% of our overall sites.

And if we put a new rental home on every vacant site

that we have, it would bring us to about 50%.

We will sell some homes along there,

but we'd be very comfortable getting up to 50% rentals.

Question from the Audience

Hi. Do you see yourself expanding across the eastern

United States or just growing America?

The question was, do you see yourself expanding

beyond the Eastern United States?

Samuel Landy, President & CEO, UMH Properties

So here's what happened Years ago, we only wanted to be

where housing was expensive.

If the resident owned the home

and rented the lot,
our product was most in demand in places like New Jersey
and Eastern Pennsylvania where there was
a giant differential between the cost of owning the home,
you know, owning a home with land
versus owning a home in a manufactured home community.
Manufactured home communities worked with the owner
occupied model where housing was expensive.
But then when you went to say the southeast like Dothan
AL, Sumter, SC, Albany, Georgia,
that model doesn't really work.
If somebody can buy a piece of land with a home,
with a garage for $200,000, you know,
why are they gonna buy a manufactured home
for $160,000 on a lot?
But then we found through COVID, when, you know,
you had unemployment, people stopped working
yet we maintained a 95% rental home occupancy
and 98% rental collection.
And when we looked into why we found out our customer
appreciated that thousand square foot three bedroom house.
No common wall neighbor above, below beside them,
they're on a 5,000 square foot lot.
They can have a garden, a pet, they have their own driveway.
You park the car right in front of your house,
you can see it all the time.
We have individual garbage pickup, we have clubhouses,
we have exercise facilities; we have dog parks.

So when people lost their jobs as waiters
and waitresses, they found other jobs as truck drivers
and warehouses, et cetera, and they paid the rent.
And then we realized these other communities
that are empty in the Southeast, it's
because they're not going to the rental model.
And if we think of ourselves
as competing against apartments, as opposed
to competing against conventional homes to build a,
a new thousand square foot, three bedroom,
two bath apartment, $300,000, $350,000.
Yet we produce the unit, especially in the Southeast for
as low as a hundred thousand.
So they can't compete with us.
So when we advertise $1,000 per month
for a brand new three bedroom, two bath house,
we get waiting lists.
We filled our one community in Dothan, AL,
bought about 30% occupied.
We're filling it right now.
We have another one in Dothan
where we ran into permitting
issues that we're just resolved.
We're gonna fill that one, Sumter, SC,
Albany, Georgia. We did one community,
all military wound up moving into the rental units.
So, somebody left the door open on a home on a Friday,
we drove by, the door was open, nobody walks in that house.

Everybody, all military, all living in the rental homes
filled the community in a year. So the rental model works.

John Massocca, Senior Research Analyst, B. Riley Securities

Alright, I'll go to one of my questions.
There's this narrative
that kinda the lower income consumers are bearing the brunt
of recent macroeconomic slowing.
Is that something you're seeing in your communities and
and how do you kind of insulate yourself from any
of those types of pressures?

Samuel Landy, President & CEO, UMH Properties

So real estate, especially in housing, is extremely local.
So it's what's the employment situation?
Probably within just five to 10 miles of that community.
And our residents are a very diverse
group in all aspects.
We have plenty of people over 55
who are now selling their conventional home
for more than $400,000 paying off their mortgage,
buying a home from us, all cash
and paying lot rent to retire.
That's a lot of our customers.
So, they don't need late working income,
they don't need wages, they're retired.
Then you have people working well, wages are way,
way up as is employee's ability to relocate.
And so, the demand for skilled workers

at this moment is remarkably strong.

You would've thought in Elkhart, IN when RV

shipments started drying up

or boat shipments started drying up,

that would cause us problems in Elkhart

because less employment.

But absolutely no problem

because there's so many other jobs.

These people pick up so many other jobs

that we are maintaining, again, 95% rental occupancy,

98% rental collection, even

with the contraction in RVs and boats.

John Massocca, Senior Research Analyst, B. Riley Securities

How are you thinking about leverage today?

And I guess maybe how do you operate in a higher,

for longer interest rate environment?

And conversely, how would you operate if the Fed started

to cut rates here in the back half of the year?

Samuel Landy, President & CEO, UMH Properties

So first, rising interest rates mean the economy's strong

and it widens the affordability gap, right?

So a $400,000 house at 6% costs $24,000 a year

at 8% costs $32,000 a year.

It takes that same house out of affordability

for a substantial part of the population

that then needs our product

because on $160,000 house,

those increased rates don't hurt as much.

It, creates more people that need what we sell.

And in fact, in the 1970s manufactured housing shipments hit

400,000 units per year when interest rates got into 16%,

18% stratosphere and there was no other housing people could afford.

So the, the higher rates are widening of affordability,

gap, lower rates you could worry,

it means the economy's contracting its problems.

But, at the same time one of the problems

with our stock today is, you know, the REIT index

where our stock is rising and falling with the REIT index

and declining rates will mean an increased stock price,

and will take that too.

Because that'll help lower our cost of capital.

in terms of debt to equity.

The reason UMH has been around 55 years,

we're very conservative

and in the presentation we show you exactly

what our debt to income, debt to asset ratio is.

But in new acquisitions

and in everything we're doing in internal growth, right?

Because in internally, we need $140 million a year

for the 1,000 rental units, the capital improvements,

the finance, home sales, the expansions.

And, we're gonna try to match that 50% debt

to 50% equity as the conservative way to grow.

Nothing's more important than survival.

My father always points out, you know,

you'll get rich in real estate as long

as you survive the downturns.

And that's the number one object.

Make sure your balance sheet is strong enough

that you always survive the downturns.

And one of the hardest things for us,

we see good acquisitions, especially at this moment,

but we don't wanna do anything to jeopardize

the strength of our balance sheet.

And we see the potential

of more acquisitions coming to us in the future.

John Massocca, Senior Research Analyst, B. Riley Securities

Very quickly because we're running outta time here,

what are the broad thoughts on the dividend in terms

of both kind of growth and payout ratios?

Samuel Landy, President & CEO, UMH Properties

Well, based on our, you know, projected operations

and our objective, right?

So just to reiterate, we currently have $200 million in revenue, 5%, $10 million.

That's 5% is a 5% rent increase.

800 new rental units is another $10 million.

So we're gonna go forward $20 million.

Now that $20 million for 2024 is already in place.

Because we already did that in ‘23.

We already raised the rent 5% and added a 1,000 rentals.

So, our belief is the FFO per share will go up

allowing us to increase the dividend

and reduce the payout ratio. Only time will tell, but we
built expansions in the right places, have the opportunity
to increase sales, have the opportunity
to increase rental revenue
and have the opportunity to increase profits
because that's that last 30% vacancy
that almost all of the revenue is profit.

Anna Chew, CFO, UMH Properties

I did want to add that over the past four years, we
annually, we consecutively increased the dividend
and it went, increased
of 19% over the last four years.

John Massocca, Senior Research Analyst, B. Riley Securities

Okay. With that I think we have run out time.
I'm sure if you have any individual questions,
management team's happy to answer them up
here, but thank you very much.
Thank you. Okay.

I didn't want you to spill that

Water. Yeah,

I had all this ready

but didn't need it. Sam, you did great.

Good, good. He knew the answers.

Yeah. Yeah. How are you? Hi.

Good. How are you? I was just curious to know

how do properties

and how do you manage your properties today?

Brett Taft, COO, UMH Properties

Yeah, we're self-managed first of all.

So, we have on onsite management,

we normally have an office manager

and assistant manager depending on how large a property is

and that maintenance team. So,

And we're regional managers too that oversee all that.

So, you're not outsourcing? No, no, no.

All of it is internal management. Yep. Sales as well.

Okay. Yep, yep. Alright. Very nice. Thank you. Thank you.

Doing nice meet you as well.

Yeah. Traditional multifamily residential product.

Yeah, it's a funny question, especially as

over the past few years, we've gotten more into greenfield

development and when you look at a manufactured housing...