REPRINTED FROM MAY 23, 2022

THE WALL STREET TRANSCRIPT
Connecting Market Leaders with Investors

UMH Properties, Inc. (NYSE:UMH)

SAMUEL A. LANDY has been President and Chief Executive Officer of UMH Properties, Inc. since 1995 and Director since 1992. He has been an Attorney at Law since 1985. Mr. Landy also served as Director of Monmouth Capital Corporation from 1994 until its merger with Monmouth Real Estate Investment Corporation in 2007, and he has been a Director of Monmouth Real Estate Investment Corporation since 1989.

SECTOR — REAL ESTATE

(BDO608) TWST: For readers who may not be familiar with the company, can you start with a brief overview and the history of UMH Properties?

Mr. Landy: UMH Properties has a 53-year history providing quality, affordable housing through manufactured homes in communities. We own 129 manufactured home communities that contain 24,200 developed homesites. We also own 8,800 rental homes that are situated on these homesites. Additionally, we own one community containing 219 developed homesites in our joint venture with Nuveen Real Estate.

TWST: Now, is your customer base more geared toward renters or buyers?

Mr. Landy: It's a combination. We have learned over the years, the historic model of manufactured housing is people own their home and rent their lot. And that worked for many, many years. But as a result of changes in the finance laws in 2009, it became more and more difficult for people to qualify to borrow. They need 10% down, 30% of their income has to cover their lot rent and finance payment, and they have to be able to verify that income. They have to meet certain debt-to-income requirements.

The implementation of these financing laws greatly decreased manufactured home sales from that period forward. Manufactured home shipments decreased to approximately 50,000 in 2009. In the 1990s shipments were as many as 200,000 and even at one point peaked at 300,000. So the lack of financing resulted in UMH having to find a solution. And the solution was renting homes.

Since 2011, we've rented 8,800 homes. We add about 800 to 900 new homes to be rented each year. 2021 was a bit of a fluke, because of supply constraints from our manufacturers, we couldn't add the full 800 to 900. We only added about 450 and it affected the first quarter 2022. We are working with our manufacturers to ensure we receive the rental inventory we have to push our business plan forward. We have 1,300 homes on order and we suspect that this year we'll receive our 800 homes which will result in increased occupancy and income.

In addition to what we go forward with on the rental side, we also sell homes and people don't have to buy a home from us to bring it into our community. They could buy it from anyone. In 2021, we sold 370 homes of which 182 were new homes sales, for approximately $27 million. Renting homes is a much simpler process which results in a much more rapid infill process.

TWST: So how much of an impact has the supply chain had on your business?

Mr. Landy: The most significant impact was in the first quarter of 2022, because in 2021, we were filling the houses brought in the prior year. So there's always a pipeline of homes that are in various stages of the delivery and setup process. In 2021, we were able to fill houses that were previously ordered, complete the setup process and move tenants in. In 2022, the first quarter, we had a shortage of homes. It's continuing into the second quarter.

But at the same time, I'm saying that I see the supply constraints are starting to loosen up. In the South, we have a manufacturer who's going to supply us with 150 homes and other manufacturers in the South are talking about how they could ship homes to the North. So the wait in the South is three months, the wait in the North is eight months and maybe longer. But there's a possibility that by bringing homes from the South to the North, we can get rid of the substantial backlogs.

TWST: And why is there such a substantial difference in the wait times between the South and the North?

Mr. Landy: I believe it's just because there was always more factory capacity down there. We have also heard about several new factories that are open or planning on opening. There is also a manufacturer that was not in the community business that has now entered and is working to deliver us homes. To the extent the supply chain delays were caused by waiting for refrigerators and appliances, that may be ending. But then there are other supply constraints such as factories that are backed up or there may be more capacity in the South than in the Northeast.

TWST: And I was wondering how higher interest rates and inflation have impacted what you do?

Mr. Landy: The higher interest rates are brand new; they're just really starting to impact our business now. What we suspect will occur will be similar to what occurred back in the 1970s. Higher interest rates highlight the difference in affordability between our products and conventional housing. When mortgage rates are low, the monthly payment difference between a $200,000 house and $100,000 house may not be that significant. But as rates go up, the monthly payment becomes more and more significant. It demonstrates further the difference between a $100,000 and a $200,000 house, because interest rates make the monthly payment go up.

So what happened in the 1970s is manufactured housing shipments rose and in fact hit their peak during that decade when the interest rates were the highest, because people always need a place to live. And we're a quality affordable product. And so higher interest rates on a $100,000 house have less of an effect than higher interest rates on a $200,000 or $300,000 house.

TWST: Are you concerned at all about a potential recession?

Mr. Landy: I am. But I think that the solutions to the recession are so obvious, from my point of view, that it shouldn't last long. Our country is 100% dependent on energy, right? Aren't we all? We all fill our cars up every day. Everybody who has to deliver something, the cost to heat a building, the cost to heat a house, the cost for electricity. We're all dependent on energy. And the Marcellus and Utica shale regions, which UMH focused on, knowing that our country has abundant natural resources to provide natural gas and to even export liquefied natural gas to other countries. We know we have the capacity, we know we have the ability to produce the energy. And so the supply constraints can be solved by utilizing our domestic oil and gas resources.

We can encourage more drilling, more pipeline projects and more investments in infrastructure to move the natural gas to the cities. So the solution is very simple. At some point, people are not going to put up with $4 per gallon gas. So change will come and when the change comes, I think that's all it takes to have a booming economy.

Inflation is too many dollars chasing too few goods. The government's current answer is to reduce the amount of dollars. I'm one of the people who say, why don't we, instead of reducing how many dollars we have — why do that to everybody, that's very painful — why not just increase the amount of goods we have? Increase the amount of natural gas we produce, gasoline, reduce the price of the goods. Let people keep their money. Let them be more wealthy. But you can lower prices by increasing supply and it's truly simple to do, just turn everybody loose and let them do it.

So I will continue to be an optimist and hope that happens. If it doesn't happen, yes, it's true, there will be a recession, because I know that our residents do not go to the gas station and say fill it up. They say $20 worth. And if that $20 worth leaves no money to go out to restaurants or no gasoline to go drive around to look for a new home, they're not going to go.

So the high cost of energy will affect the economy and that goes to my whole other theory: High energy prices in and of themselves would have slowed down the economy and slowed down inflation, but then we raised interest rates too. So it's like you turned off the heat and opened the windows, but you only needed to turn off the heat, you don't need to open the windows too. So we did two things and it's highly likely to cause a recession. But there are such simple solutions that I hope it won't last long.

TWST: You said in the most recent earnings call that the biggest challenge the company faces is obtaining rental homes to drive occupancy and revenue gains. Can you elaborate on that?

Mr. Landy: Well, demand for our product is really strong. When I speak to our managers, regional managers, whether we're talking about sales or rentals, we have a waiting list. We've done an incredible job of obtaining approvals, building expansions, turning around properties with vacancies. So we have 3,300 vacant lots to add homes to. And these communities have waiting lists, we have 95% occupancy of our 8,800 rental units. So you know, why can't we go forward faster?

Well the reason we didn't go forward faster in the first quarter of 2022 is we just couldn't get the homes from the manufacturers and get them set up. That goes for both sales and rentals. So that is our number-one problem. We've been working on it. We've met with the manufacturers. We've given them basically a three-year statement of how many homes we expect we will need in each state. And we've asked them to do what they can to supply them. And we believe that that's going to occur.

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TWST: What are some other important takeaways from the most recent earnings report?

Mr. Landy: Well, number one, we very intentionally raised approximately $200 million in cash that we are holding. At quarter end, we had $292 million of cash that was earning virtually nothing. This capital was raised through the issuance of equity and the issuance of debt. On the stock, you pay slightly under a 3.5% dividend and the debt was raised at a 4.72% coupon. The carrying cost of this capital results in a reduction in your funds from operation per share. But that is very short term, because the reason we raised that money, the reason we're sitting on that $292 million is in July, our $247 million of 6.75% preferred becomes callable and we're going to use most of the capital raised to redeem that.

All of a sudden, this money that's earning nothing will benefit the common shareholders. The redemption of the preferred will increase earnings by approximately $0.08 per share. Removing the preferred dividend from the first quarter would have resulted in FFO of approximately $0.25 per share.

So the common shareholders saw two problems in the first quarter. One, we added less rental units than we did the year before, but that was because of supply constraints, not because of a lack of demand. And two, we're sitting on a ton of cash that was raised to be accretively deployed later in the year. It was very fortuitous that we raised it early, while our stock price was high and while interest rates were low and we're sitting on that money, so there is zero question that on the date in July that we can redeem the preferred, we will. And the moment we do, those dollars benefit the common shareholders.

TWST: What have been some of the challenges or headwinds that you've met over 2021 and what do you see ahead for 2022? What are your top concerns?

Mr. Landy: Well, we've been doing this for 53 years. So our general number-one concern is having a supply of vacant lots to add rental homes or homes for sale. So if we're ever 95% occupied on lots, the question becomes how do you grow? So we have approximately 86% community occupancy. It leaves us 3,300 vacant sites. We have a very clear runway of how we're going to grow.

Additionally, we own vacant acreage adjoining our communities. It's over 1,800 acres which leaves us so the vacant acres we own can potentially be developed into over 7,200 lots. We have intentionally created this runway to drive internal growth for years to come. As a normal matter, that's our number-one concern.

How are we going to grow? There are two methods of growth, internal and external. The internal growth comes from filling our vacant sites and building our expansions. And the external growth comes from acquisitions. In 2021, external growth was incredibly difficult because so many people saw our success of buying turnaround properties and generating substantial value that the price of turnaround properties went way up.

The price of 95%-occupied communities in perfect condition was always high, but with low interest rates was even higher. So those deals would not be accretive to us because our larger competitors' cost of capital was lower than ours. So they could pay — they could buy a property earning 3% and it would be accretive to them; but for us, our cost of capital was closer to 4%, so it was not accretive to us.

So, knowing our challenges in doing acquisitions, our biggest concern was how do we grow internally? And we work on that every day so that we have many approvals in the pipeline so that we could build 400 new lots per year for the next five years. And we have entered into a joint venture with Nuveen, so that we can do greenfield development without negatively impacting our funds from operation.

2021 was really a fantastic year for us for preparing to go forward in the future. And in the first quarter and maybe even the first half of 2022, you won't notice what a great job we did. But as you get to the second half of the year, when that preferred stock is redeemed and that money goes to work and the other good things happen such as we can sell more homes because we built more lots, the factories will be providing us with the houses, so we can get back up to adding 800 to 900 rental units — all of those good things will happen.

It's very hard to predict the exact timing. But good thing number one, redeem the preferred. Good thing number two, increase the supply of homes so we can add rental income. And good thing number three, add sales income. So all of that is coming and there are very good reasons to be extremely optimistic about how UMH will do in the next 12, 18, 24 months and beyond.

TWST: What's the one thing you would want a potential investor to know about the company?

Mr. Landy: Long term, real estate is always the hedge against inflation. Virtually any REIT should be a hedge against inflation. But a company that's in affordable housing, like UMH, provides a very necessary product. And it's a social investment. People need quality, affordable housing. UMH fights lawsuits to obtain the approvals to build more sites and to provide more quality housing. The demand for our product is substantial, which is why we have the 86% community occupancy, 95% rental home occupancy and 98% rent collection. So the demand is incredible. We can continue to grow our revenue and our earnings by supplying more houses. And that's a differentiator between us and other operators.

Other operators talk about how they're going to increase income and revenue by raising rents more than 4%. But UMH is trying to focus on keeping the rent increases as low as we possibly can. It's approximately 4%, slightly over 4%. Last quarter, our expenses rose approximately 8%. But we expect to make up that difference and add profits by growing the number of rental homes so that even though expenses are going up more than the rent increase, the new revenue from new rental homes and occupied lots from sale will more than offset the difference between our rent increase that does not equal the expense increase.

TWST: As we wrap things up, is there anything else that you wanted to mention?

Mr. Landy: UMH has had a phenomenal 53 years, stocks go up and down. No stock goes in a straight line. We work every day on executing our long-term business plan and on maintaining a strong balance sheet to minimize our shareholder's risks. We work on acquiring vacant land adjoining our communities at the right price. We are geared up and ready to go forward.

We have created a phenomenal team at UMH. When we did the Sebring grand opening and we brought our vice presidents and regional managers to Sebring, you could see how many years' experience our people had, how great they are at training new people, how well they know how a manufactured home community should be built, what amenities we should have, how to set up homes, how to properly furnish and decorate a house so that they are very attractive to new customers who may not have known manufactured housing in the past.

When they came to Sebring, they saw this fantastic community we built, these fantastic houses. The demand was incredible. People are shocked at how low priced we can produce such quality housing. And so it's my pleasure to work with all of the people we work with. And these people are geared to make this company continue to go forward for the next 53 years.

TWST: Thank you. (CJ)

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