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Craig Kucera: Thank you for joining us today here at REIT Week, 2019, here in New York. My name is Craig Kucera. I'm a managing director in the real estate equity research group at B. Riley FBR. With me today is Mr. Sam Landy, the CEO of UMH Properties, Eugene Landy, the Chairman of the Board, and Anna Chew, the Chief Financial Officer. I have had the pleasure of covering UMH for about five or six years now. I have really seen the company grow. And before we open it up to Q and A to the audience, keep in mind this is an open forum. So, as we go, make sure you ask questions. I'll repeat them into the microphone, and then management will answer them.

Craig Kucera: But before we start that, I did think it made sense for management to just give a brief overview of the company, where things have been, and kind of where they see things going. Sam?

Sam Landy: Thank you. All housing is about location and value. And manufactured homes, and manufactured home communities, provide incredible value. Dr. Ben Carson is in Washington D.C. right now with the Innovative Housing Forum. And there are three manufactured homes on display in the great Mall of Washington D.C. There's two multi-section and one single-section that UMH brought. We've been on Fox News. You can see things about this on the MHI website, and the quality of our product. The fact that we can provide these houses for $65 a square foot, we can rent them for 75 cents per square foot per month. No other industry, no other form of housing can compete with us.

Sam Landy: And so then you get to the problems of building new communities, and Dr. Carson is working on that right now, trying to break down the various barriers that prevent construction of manufactured home communities. And that will be great for UMH, both in terms of our ability to build communities, sell more homes, and rent more homes. But it also helps us if other people can build communities, because then we can buy those communities at cap rates, and we can further grow the company. My father first discovered manufactured housing back in Expo '67, many years ago. And today, Dr. Carson is putting on this great Innovative Housing Conference.

Sam Landy: This is almost like a starting point for manufactured homes. There's a huge percentage of the population that knows nothing about our product. We could provide housing for people with household incomes of 30,000 dollars per year.

Nobody else can do that unsubsidized. So, as we get that message out to local zoning boards, state politicians, federal politicians, the increase in supply is going to be great for us, great for the country. And it's going to create an ability to grow UMH faster and further than we've ever grown before.

Sam Landy: So, we have our 51-year history, and we've seen all the various different things that can happen in manufactured housing, good and bad. There was a time in 2006 where most of our communities were full, where we were building expansions and making substantial money selling houses. And the biggest problem then was how are you going to build more communities? And there were very few communities for sale at prices that made sense.

Sam Landy: As you head into the 2009 crash, manufactured housing went through basically a decade of losing occupancy, and UMH took advantage of that to quadruple the size of the company, making acquisitions primarily in the Marcellus and Utica Shale area. And that's a fantastic area where, because of the loss of coal, steel, tire jobs. Communities, which are predominately workforce housing, lost a substantial number of residents who had to relocate. And we saw Marcellus and Utica Shale coming; that they were building these pipelines; that they were drilling for natural gas; that they build cracker plants that convert natural gas to plastics, panda plants that convert natural gas to electricity. And then just the fact that low-cost energy results in domestic manufacturing, and we said these areas of the country are going to grow again, and we made these acquisitions.

Sam Landy: An important thing to know is, until a community is 80% occupied, it can't be efficient. But at 80% occupancy, they're going to operate at a 50% expense ratio, if the water and sewer is paid by us, and at 30% expense ratio, if it's separately metered. But you have to get to 80% occupancy. You have to make the capital improvements. You have to add rental units. And because UMH had the capital to do that, we were able to quadruple the size of the portfolio, and rapidly turn around some of these communities. Nashville, our turnarounds were rapid. Certain other places, they're rapid. And you have a community Countryside, south of Nashville, where we bought it at 360 sites, something like 70% occupancy. It's full today, and we're building another 360 lots. So we not only acquired these communities at great prices, $30,000 a site and less when it cost $70,000 a site to build them, but we acquired them as the demographics were changing.

Sam Landy: One of the points I want to bring, a guy named David Foot wrote a book, Boom, Bust & Echo, about the importance of demographics in predicting future trends. And basically he predicted the housing bust, but that book and what it's about is in housing, especially, demographics are everything. And UMH can look at the various areas of the country, look at what housing costs, and make the decision. Is this an area where demand is going to grow, and rents are going to rise? And that's where we want to be. So, I think our ability to grow the company is better than it's ever been, and our ability to grow revenue and funds from operation are stronger than it's ever been.

Sam Landy: With that, I'm going to turn it over to Anna for some specific metrics.

Anna Chew: As Sam mentioned, we are a growth company. Over the past eight years, we've increased our total enterprise value by over 345%. In 2011, we were $288 million. Now, we're at $1.3 billion. In 2011, we had 40 communities with 8,900 sites. Now, we have 118 communities with 21,500 sites. Throughout our growth spurt, we've been a conservative company. Our total debt is $444 million, of which $329 million are community-level fixed-rate mortgage debt at a weighted average interest rate of 4.3%.

Anna Chew: Our net debt to total market cap is 34%, and we have a securities portfolio of $109 million, which is approximately nine percent of our total enterprise value. And with that securities portfolio, our net debt to total market cap is only 26%. Subsequent to quarter end, we further enhanced our liquidity, we enhanced our balance sheet by issuing 100 million dollars of our Series C 6.75% preferred. And we'll use that for our additional acquisitions of communities, as well as additions of rental homes, as well as expansions of our communities.

Anna Chew: In 2018, we had FFO growth of 12%. And following eight consecutive years of double-digit rental income growth, 2019 Q1 saw an increase of 12% on our rental income, and an increase in sales of 44%. And that's after a 2018 increase in sales of 45%. So, we're very happy about the trajectory of the company. Community NOI increased 4.7% same store this quarter. Same property occupancy increased 120 basis points to 83.1%. We are adding rentals, and same store year over year, we added 700 rental units, which is approximately 12% of the portfolio.

Anna Chew: Now, the importance of adding rental units is that the rental units provide an unlevered 14% return. So that's very important to the growth of our company. And we talk about how we can generate internal growth, as well as growth through acquisitions, and that's by the rental units. We're able to increase occupancy at these locations. Our business plan is to buy communities, which are value-add communities. Over the past eight years, we've acquired communities at I would say about 60, 70, 80% occupancy. So, we're able to add these rental units to increase occupancy and generate further income and further value in these communities.

Anna Chew: We anticipate, with the nice trajectory that we've had, that 2019 will be an excellent year for UMH. And Gene?

Eugene Landy: Thank you, Anna. The affordable housing crisis is real. The shortage of workforce housing, that shortage is a real crisis. It is getting worse every year, and there are millions of people who need three bedrooms, they need two baths, they need a bigger house, and they need housing. And the manufactured housing industry, which provided 200, 300,000 homes a year decades ago, is only producing 100,000 homes today. And they have a partial solution to it.

Eugene Landy: And I'm very proud of the industry. We have the exhibit now on the Washington Mall, and we have the backing of the Secretary of Housing. We hope to get even higher backing in the government for our industry. And this can be a new era for the manufactured housing industry. And by the way, it's not a necessity for UMH. The fact that you can't build new parks puts a moat around our existing parks. And we were wise enough to go out and buy all these parks, and we're still buying parks. But eventually we'll run out of existing parks to buy, and we really think it's in the best interest of the nation that we do something about this. We do other things as well. We do expansions, and we build green field developments, and if you're talking about that, you're talking about hundreds of thousands of needed sites. And that gets a great potential for the industry, and it's a great potential for UMH.

Eugene Landy: So, we picked a wonderful sector. We own wonderful real estate. And on top of that, we have wonderful people, many of whom been with us 10, 15, 20, 30 years. And they're beginning to see the fruits of their labor, and that the company is doing so well. And we're so proud of them. Watch your TV, you'll see one of our homes on exhibit. And it's just a great era for the company, and UMH is just a great company to invest in. And with that, I guess we'll go to questions.

Craig Kucera: First question.

Speaker 5: Yes. Two questions. First, can you talk about pilot programs? The GSEs are launching, and how can they impact the industry? And then, also, I think you have some communities that are in the pipeline. And I think you indicated that the occupancy rate was between 63%. So, I'm trying to understand is when you bid on these communities, who you're bidding against, typically? And second, it seems kind of hard to believe that a community could be that mismanaged, where it only has 63% occupancy. So I'm just [crosstalk] hard to believe it could be true, a community could be mismanaged to the extent that they only have 63% occupancy.

Craig Kucera: So, the question from the audience was two part. The first question was some additional color on the pilot programs, from the GSEs, and what it might mean for the industry. The second question was related to color on acquisitions, and why they're able to acquire them at such low occupancy, and who the bidders and sellers are involved.

Eugene Landy: We have the capital to invest. The people who own parks with 200 spaces that were filled before 2006, 2007, before they emptied out as the Rust Belt came in instead of the manufacturing businesses. Those people, they owned the parks, and they would've loved to have done what we did. But remember, we went out and we bought, what is it? 7,000, 8,000 new units to put in there at $45,000 a piece. That's 360 million dollars we invested. You can't expect a mom and pop operator to go out and write a check for $100,000, and put two or three rental units in it.

Eugene Landy: So we had the capital to do it. We had the foresight. I have to give Sam credit for that. There was a lot of reluctance on the part of people to go to the business model we went to. And that is that we own both the house and lot, and we rent both the house and lot. We were worried that, as far as our existing tenant is concerned, who owned his own home, that there would be an adverse reaction to living next door to someone who was a renter and is not an owner. But that's proven not to be true, and in fact you drive through our parks and you can't tell which homes are rented and which homes are owned or occupied. So that worked out.

Eugene Landy: Sam, do you want to answer the second part?

Sam Landy: Well, sure. So, first of all, there's room to improve financing on manufactured home sales, because the buyer of homes generally pay higher rates than they do for conventional mortgages. And that's being worked on at this moment, although there's no overall program. That's predominately going to apply to land home sales, where you put the home on land, and the resident owns. But there's another issue out there, which is when we do these rental units, we're buying a community, and we can get a Fannie Mae or Freddie Mac mortgage at about four percent.

Sam Landy: So, if we paid $40,000 for the lot, you can get a mortgage on 80% of that at four percent. But when you buy the house from the factory and set it up, which costs another $45,000, the loan for that house costs us seven percent. And so most of those individual community owners couldn't get the loan at all, which is part of why they couldn't do it. But we can get the loan, but it's seven percent. We have been directly working with Fannie Mae and Freddie Mac and others, to have people recognize that when you own both units, you're the equivalent of a garden apartment. It's one dwelling unit.

Sam Landy: And so our community Memphis Blues, which is going to be an all-rental community, is most likely going to get the first Fannie Mae or Freddie Mac mortgage, taking the lot and the house and considering it as one dwelling unit, so we'll get a mortgage on both at the four percent. And this is probably the hugest development in manufactured housing. And after we jump that hurdle, they're willing to do it on an all-rental community.

Sam Landy: But they've said that … 50% of the residents own their home, and 50% belong to UMH, we don't want to give you that loan on the houses, because it's complicated at this moment to figure which houses we have the loan on. And we're speaking to them, and we went to New Orleans and spoke to the highest level people at Fannie Mae and Freddie Mac, and we may resolve that issue so that we can get a blanket mortgage that will cover even if we own 25% of rental units. And so we'll get that at four percent. And you're talking about UMH owns about 350 million dollars worth of rentals today, and so if we can lower that interest rate from seven percent to four percent, it's the hugest development there could possibly be.

Sam Landy: So, we're working on that every moment. When I mentioned Memphis Blues, you can go to UMH.com, or UMH.reit, and in UMH.com you go to media, and you'll see videos of all of our communities. And they're also on YouTube UMH, and these videos, they're drone videos. They show you the communities. They show you the houses. And there's no better way for us to explain the product to you, and the community, than to see those videos. It just shows you the modern manufactured home community, and it shows you the transition.

Sam Landy: You know, you talk about mismanagement. It's not so much mismanagement. What happened is the communities were built in the 1960s or '70s. The demographics were strong, so that the community owner was able to raise rent. They were able to make money selling new homes, but then because of 1999's NAFTA, in 2001 people start leaving those areas. Suddenly they have vacancies. They can't make money from sales. They can't make money raising the rent. They stop doing their capital improvements. Repairs and maintenance become deferred. The houses become 40, 50 years old, and they can't afford to take them out and replace them with new.

Sam Landy: And so, UMH comes in. We can remove the old homes and enforce the rules and regulations, replace the old houses with new homes, improve the signage, repave the roads. If the water lines are old, and so that there's not proper water pressure, and it costs a million dollars to replace the lines, we do it. And so all those things we do, where the old owner couldn't, and that's what sets you on the road to getting to the 90% occupancy.

Sam Landy: But the primary driver is demographics and income, which were being destroyed in these areas of the country. And now are growing more rapidly than anywhere else. So, that's how we're doing all of those things.

Craig Kucera: We have any other questions from the audience? Oh, question in the back?

Speaker 6: Do you take any sustainability initiatives in the production of new units?

Craig Kucera: Question is does UMH take any sustainability initiatives in the production of new units?

Sam Landy: Yeah, so the manufacturers actually build the homes. That's Cavco Enterprises, Champion, Clayton Homes. But yes, they very much are concerned with sustainability, and our homes are energy-efficient houses, resulting in the lowest energy costs. One of the things UMH does is we separately meter these communities. We separately meter the water and sewer. And when you do that, the usage and the utility bill goes down one third. And until you separately meter them, there's people using $100 a month worth of water and sewer, and people using $10. And the people using the $10 have to pay for the people using $100. You separately meter them, and everybody fixes, if it's a leaky toilet, whatever the situation is. And the usage goes down one third, and that saves everybody in the community money. So.

Anna Chew: I just wanted to add that these homes are built in a factory. And because they're built in a factory, they are energy-efficient. You have robotics. You have people who are … There's less waste because it's being built in a factory. Also, we are putting in energy-efficient appliances, which has energy star ratings in these homes. So, that in itself is ESG positive.

Craig Kucera: I was going to ask, this administration I think has been noticeably more constructive on manufactured housing, particularly Ben Carson, who historically is a physician. I'm a bit surprised, but I guess is there anyone else in the administration that is specifically tied to manufactured housing? Or is this just sort of in line with the Trump administration's support for more, certainly in your markets I would think, as far as trying to increase economic growth?

Sam Landy: The Secretary of Agriculture also came to our display, and went through our houses. And HUD, Fannie Mae, Freddie Mac, are all focused on the issue of providing additional affordable housing. So.

Craig Kucera: Sam, you noted that in addition to sub-metering, and being able to drive higher margins, you're also looking to expand on a number of undeveloped acres you currently have. Can you talk about your expectations there? And sort of the value creation you ultimately see over the next few years through adding some lots?

Sam Landy: Yes, we have something like 1,600 vacant acres, which could be about 6,400 lots. And we use that number, four per acre, because we're used to various local governments using wetlands laws, wetland buffers, open space requirements to reduce our density. If Dr. Ben Carson's able to do away with a lot of that, it gets more like eight homes per acre. In Florida, communities can be 15 homes per acre. We've seen them even greater in California.

Sam Landy: We have 350 lots being built right now under construction at this moment. In our presentation, it shows 850 lots for next year. And expansions work based on what is the housing market at the time construction is complete. There are times, in the seventies, eighties, nineties, when the developer of a community made enough money selling the house to pay 100% for the construction of the lot, and then collected the lot rent forever. That hasn't been true since 2006. But even if you only recover half the cost of building a lot, $30,000 out of $65, 70,000 to build the lot, that's a major recovery of the money you put into building the community. And then you receive the lot rent forever.

Sam Landy: The history of manufactured housing is first you sold the house to the person who rented your lot, and when the people built those communities back in the seventies, et cetera, they were working with local banks. And the developer of the community actually guaranteed to the bank the loans for everybody who bought homes in the communities. And they didn't receive their final curtailments, the profit margin, until the resident made all their payments.

Sam Landy: By 1999, that completely changed, and they were securitizing manufactured home loans, and the community owner wasn't guaranteeing anything. 2001, 2002, there's a lack of financing for buyers of manufactured homes. And UMH realized that the community owner is the best source of financing for the resident, because we can control the community, we can manage the house, manage everything. We did that, and successfully financed houses through 2009. Probably originated $30 million in loans in those periods of time. Even during the housing crash, if we had a repossessed house, homes, we could hold them, sell them, rent them. And so we don't lose any money. We made money doing that all the time.

Sam Landy: 2009, the housing crash comes, and the government changes the laws so you can't just use your judgment to finance homes. You wind up with the 47% debt to income ratio, and other requirements that just do not fit for people who earn $40,000 per year. And based on that, our sales in 2009 fell to four million dollars. And we didn't really have a solution to the problem, but Sun Communities started renting homes. And they eventually rented 9,000 homes. And so then UMH saw how well the rentals were going, and we started doing it about 2011. And since then, we've rented almost 7,000 homes.

Sam Landy: And what we learn every day is this rental business is better than anybody ever would've imagined. What people said about manufactured housing is there's no more stable income source than a resident-owned home in a land-leased community. And that's absolutely true. If they own the house, and they're renting the lot, no matter how bad things get, they're going to try to pay you that rent so they don't lose that home, and they're going to stay right where they are. It is the number one best, most stable form of income. But a rental home is as good as any apartment.

Sam Landy: And when you realize that the new modern manufactured home is as good as any apartment, then why doesn't our stock yield three or four percent like apartment REITs, and why don't we get the same credit? And why aren't we able to borrow at the same rates as apartment REITs? And it's just because this business of rental manufactured homes is incredibly new. Sun started it in 2009. UMH followed Sun in 2011. Yes! is also doing it. But nobody else is doing it, because the financing has not existed to build all-rental communities.

Sam Landy: And our Memphis Blues is going to be the first all-rental, and like we said, we're going to reduce that interest rate. And I think you're going to find that our thousand square foot, three bedroom, two bath house in a land-lease community that we can rent for $750 a month is the best value in housing there is, and that's why we maintain 95% rental occupancy. On the last Sunday of the month, one resident moves out while the next one moves in on the same day. It's just an absolutely incredible business that doesn't have a very long history, so not many people know about it.

Craig Kucera: Question from the audience?

Speaker 7: Thanks. You had 14% unlevered IRRs. Explain to me the logic of having 100 million dollars securities portfolio at seven percent yield.

Craig Kucera: Question is on securities portfolio.

Speaker 7: The reason I ask that question is that you've been capitalizing, growing your cash balances and higher coupon preferreds, so I'm kind of … You're paying seven and a half percent on preferred, why not deploy the securities portfolio [inaudible] percent?

Eugene Landy: Well, the first thing, we do both. We issue the preferred, and we put the 800 new rentals a year into our parks. The 800 new rentals cost 35, 40 million dollars. We do about a hundred million in acquisitions. We need $25, 30 million in equity for that. And we do the expansions, so we have needs for about $100 million in capital a year. You raise the capital when you can, and you store the capital, and this is what we've done over two decades or more. You store the capital, and we successfully stored it, made money using a securities portfolio. And then last year was just the worst things happened to all the portfolio, and the $150 million in portfolio has gone down about $25 million in value. For a substantial portion of that portfolio, we are hopeful for recovery, but one of the reasons we've invested in securities besides liquidity was I learned a great deal … Last year, it was a very expensive lesson, but we do have a securities portfolio, and that has gone down, but the basics of investing in rental units is still there. The basics of investing in expansions are there, and acquisitions is still there.

Anna Chew: I just wanted to add that the portfolio is approximately 9.8% of our gross assets. We've been committed to not increase the portfolio, so therefore as we increase our asset base, the percentage of our portfolio will decrease. But in the past, we used it for liquidity, and it was very important to have that liquidity. As a small-cap REIT, we needed to be able to acquire communities with no mortgage contingency, and that's the reason why we were able to grow our REIT so rapidly.

Craig Kucera: And with that, we've run out of time today. Thank you, management team of UMH Properties.

Speaker 8: Thank you.