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UMH - Q2 2017 UMH Properties Inc Earnings Call

EVENT DATE/TIME: AUGUST 04, 2017 / 2:00PM GMT

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PRESENTATION

Operator

Good morning, and welcome to UMH Properties Second Quarter 2017 Earnings Conference Call. (Operator Instructions) Please also note that today's event is being recorded.

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

Nelli Madden - *UMH Properties, Inc. - Director of IR*

Thank you very much, operator. In addition to the 10-Q that we filed with the SEC yesterday, we have filed an unaudited second quarter supplemental information presentation. This supplemental information presentation, along with the 10-Q, are available on the company's website at umh.reit. I would like to remind everyone that certain statements made during this conference call which are not historical facts may be deemed forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995.

The forward-looking statements that we make on this call are based on our current expectations and involve various risks and uncertainties. Although the company believes the expectations reflected in any forward-looking statements are based on reasonable assumptions, the company can provide no assurance that its expectations will be achieved.

The risks and uncertainties that could cause actual results to differ materially from expectations are detailed in the company's second quarter 2017 earnings release and filings with the Securities and Exchange Commission. The company disclaims any obligation to update its forward-looking statements.

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

Having said that, I would like to introduce management with us today. Eugene Landy, Chairman; Samuel Landy, President and Chief Executive Officer; and Anna Chew, Vice President and Chief Financial Officer.

It is now my pleasure to turn the call over to UMH's President and Chief Executive Officer, Samuel Landy.

Samuel A. Landy - *UMH Properties, Inc. - CEO, President and Director*

Thank you very much, Nelli. Good morning, everyone, and thank you for joining us. We're pleased to report our results for the second quarter ended June 30, 2017. UMH has reached a number of milestones this quarter. Our stock is trading at all-time highs. We have been included in the MSCI REIT index. Our total market capitalization is now over $1 billion with an equity market cap of over $500 million. According to KeyBanc's leaderboard, UMH was the top-performing REIT over the last 12 months, delivering a total return of 59.7%. These milestones were achieved due to the successful execution of our business plan of acquiring communities in strong geographic locations below replacement costs, making necessary improvements and growing occupancy and revenue by utilizing our rental home and sales programs. The positive momentum created by our strong first quarter performance was continued into the second quarter.

Core FFO for the second quarter was $0.20 per diluted share, representing an increase of 11% year-over-year. Normalized FFO for the second quarter of 2017 was $0.17 per diluted share, representing an increase of 6% year-over-year. Our community operating results continue to meet our expectations. Rental and Related Income was up 13% over the second quarter of 2016, and our expense ratio improved from 47.8% in the prior year period to 46.9% in the current quarter. As a result, our community NOI increased 15% year-over-year.

During the quarter, we issued 1.4 million shares of our common stock in conjunction with our recent MSCI REIT Index inclusion, raising net proceeds of $22.5 million. In addition, we raised $15.6 million through our Dividend Reinvestment and Stock Purchase Plan. This capital has not yet been fully deployed.

Subsequent to the quarter end, we further increased our liquidity and strengthened our financial flexibility and balance sheet by issuing 5 million shares of a new 6.75% Series C Cumulative Redeemable Preferred Stock for net proceeds after deducting the underwriting discount and other estimated offering expenses, of approximately $121 million.

In addition, the underwriters exercised their overallotment option and purchased an additional 750,000 shares for net proceeds of $18 million. We intend to use a portion of the net proceeds to redeem all of the 3,663,800 outstanding share of our 8.25% Series A Preferred Stock with a total par value of $91.6 million. This 150-basis-point reduction will result in $1.4 million in annual preferred dividend savings. The balance of the proceeds will be used for general corporate purposes, including acquisitions, expansions of communities and for the purchase of additional rental homes, which will generate additional per-share earnings accretion once they are fully deployed. It was an excellent quarter for the company, marked by continued value creation through solid same-property metrics. Same-property NOI increased by 10.5% over the prior year period, driven by a 180-basis-point increase in same-property occupancy and a 6.4% increase in same-property revenue.

Rental homes is the primary driver of our occupancy growth and performance. We continue to see strong demand for rentals in all of our markets. We have expanded our rental program with the addition of 190 rental homes during the quarter and 433 rental homes year-to-date, bringing the total to approximately 5,100 homes. Occupancy of our rental homes continues to be strong, averaging 93.6% at quarter end. Occupied rental homes represented approximately 31% of total occupied homesites at quarter end. UMH is on target to provide 800 units of newly occupied rental housing this year. The addition of 800 occupied rental homes generates a minimum of $6.4 million in top line revenue. Home sales have also played an integral part in increasing our occupancy. Following a 12% increase in the first quarter, home sales increased by 26% this quarter with $3.5 million in homes sold as compared to $2.8 million in the prior year period. We sold 65 homes this quarter as compared to 49 homes for the prior year period, representing an increase of 33%.

As the overall housing market continues to improve and additional financing options become available for consumers, we expect our home sales to return to prerecession levels. Overall, manufactured home production continues its upward trajectory for 2017, demonstrating solid growth. Industry shipments continue to improve with May shipments increasing 15% year-over-year, bringing the seasonally adjusted annual rate of shipments to 89,000 homes. However, this growing number has still not reached the long-term historic norms of over 150,000 homes per year. Housing fundamentals and rising alternative housing costs continue to favor our industry.

UMH had a quiet quarter on the acquisition front, completing the purchase of one community for a purchase price of $4 million. This age-restricted community contains 63 developed homesites with an occupancy rate of 92%. This community has strong upside potential with a substantial amount of vacant land for future development. Once complete, the community will contain approximately 170 developed home ites. This is our first community in the State of Maryland, and we're excited about our future prospects here.

While the substantial amount of community acquisitions we have achieved over the past several years have proven to be very opportunistic, acquiring new communities in the current market is becoming very challenging as competition has greatly increased. Operational growth and compressing cap rates are generating intense demand for manufactured housing communities. Many major players have entered into our asset class, further compressing cap rates. The value of our entire portfolio has increased, not only due to cap rate compression but also due to the improvements we have made in our communities. We continue to seek selective acquisitions in our target markets and anticipate completing acquisitions of several communities throughout the remainder of the year.

We have been working on a number of expansions to our existing communities. We have previously announced the opening of our first all-rental community in Memphis, Tennessee. The first phase of 39 sites is progressing faster than anticipated and we have submitted plans to the city for Phase 2. We have also completed expansions at our Pine Manor and Brookview Village communities.

UMH currently owns 107 communities with 19,400 developed homesites located throughout 8 states. We have increased the number of developed homesites by 9% over the prior year period. Our team has done an outstanding job in modernizing all of our communities and adding new rental and sales units. Our communities have won a number of awards, including most recently, Community of The Year for our Port Royal Village community in Pennsylvania. Our communities located in the energy-rich Marcellus and Utica Shale regions continue to exhibit solid fundamentals.

We are happy to report that we've entered into an oil and gas lease at one of our communities. We received a payment of $252,000 and will receive an 18% royalty once oil and gas production starts. This demonstrates the increased activity in the region. Gas drilling and exploration is resuming prompted by rising oil and gas prices. Many cracker plant projects that refine natural gas into plastics and pipeline projects continue to be built, driving increased employment and wages in this region.

And now Anna will provide you with greater detail on our results for the second quarter.

Anna T. Chew - *UMH Properties, Inc. - VP, CFO and Director*

Thank you, Sam. Core funds from operations or Core FFO was $6.5 million or $0.20 per diluted share for the second quarter of 2017 compared to $5 million or $0.18 per diluted share for the prior year period, representing an increase of 11% on a per-share basis. Normalized FFO, which excludes realized gains on the sale of securities, was $5.5 million or $0.17 per diluted share for the second quarter of 2017 compared to $4.3 million or $0.16 per diluted share in the prior year period, representing an increase of 6% on a per-share basis.

As Sam mentioned, during the quarter, we raised $38 million of additional capital, which we have not yet fully deployed. Rental and related income for the quarter increased by 13% from $22.4 million in 2016 to $25.3 million in 2017. This increase was primarily due to the acquisition of 9 communities in 2016 and 2017, the addition of rental units and the growth in occupancy. Community NOI increased by 15% from $11.7 million in 2016 to $13.4 million in 2017.

Community operating expenses for the quarter were 46.9% of rental and related income, representing a 90 basis point improvement over the 47.8% expense ratio for the prior year period. As we noted in the past, most of the community expenses consist of fixed costs, and therefore, as occupancy rates increase and as we upgrade and integrate our acquisitions, these expense ratios will continue to improve.

As we turn to our capital structure, as of the end of the quarter, we had approximately $375 million in debt, of which, $311 million was community-level mortgage debt at a weighted average interest-rate of 4.3%. 85% of our total debt is fixed rate. UMH has also continued to take advantage of the protracted low interest rate environment.

During the quarter, we obtained a $16.8 million mortgage on one of our Pennsylvania communities. This loan has a 10-year maturity and principal repayments based on a 30-year amortization schedule. Interest on this mortgage is at a fixed rate of 4.12%. Proceeds from this mortgage were used to repay the existing $9 million mortgage with an interest rate of 6.175%. This transaction demonstrates the appreciation in our community portfolio, which is not reflected on our historical balance sheet. At quarter end, we had a total of $187 million in perpetual preferred equity, including $91.5 million of our Series A at 8.25%, that we plan to redeem in August. As Sam mentioned, this will result in an annual preferred dividend savings of $1.4 million. Our preferred stock combined with an equity market capitalization of $570 million and our $375 million in debt, results in total market capitalization of approximately $1.1 billion at quarter end, representing a 37% increase over the prior year period.

From a credit standpoint, our net debt to total market capitalization was 32%. Our net debt less securities to total market capitalization was 23%. Our fixed-charge coverage was 1.7x. Our net debt-to-EBITDA was 6.7x, and our net debt less securities to EBITDA was 4.7x. From a liquidity standpoint, we ended the quarter with $8 million in cash and cash equivalents, $109 million in our securities portfolio, encumbered by $6 million in margin loans, and $15 million available on our credit facility. We also had $21 million available on our revolving lines of credit for the financing of home sales and the purchase of inventory. Subsequent to quarter end, we repaid the $35 million outstanding on our credit facility.

And now let me turn it over to Gene before we open it up for questions.

Eugene W. Landy - *UMH Properties, Inc. - Founder and Chairman*

Thank you, Anna. As founder and Chairman of the Board of Directors, I am proud of the substantial progress UMH has made in its long-term strategic business plan. We have delivered solid performance metrics in the second quarter and year-to-date with double-digit growth in Core FFO, Rental revenue, Home sales and NOI. Same Property metrics continue to improve with same-property NOI increasing by 11%. We are very pleased with how 2017 is progressing. As population continues to grow and as our economy expands and income increases spurring new household formations, a recurring theme is the need for housing. The availability of homes for sale has fallen short of demand, driving home prices up and creating a housing shortage. As a result of the efficiencies of factory production, manufactured homes are highly competitive in quality and value and are the most cost-effective way to meet the need for affordable housing. UMH has built a high-quality portfolio of communities. I am proud of the substantial contributions UMH has made towards providing housing for all. We will now be happy to take questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question today comes from Craig Kucera from FBR.

Craig Gerald Kucera - *FBR Capital Markets & Co., Research Division - Analyst*

Wanted to ask about the excess proceeds from the preferred offering. When you think about that, are you more likely to reduce debt, kind of keep your leverage down from those excess proceeds or reinvest those back into the business?

Eugene W. Landy - *UMH Properties, Inc. - Founder and Chairman*

We hope to invest in the business. We're working very hard on building a pipeline of manufactured home communities to buy. We have one group. We have signed a letter of intent. We hope to go to a contract and close on that, and we have in the process negotiations for several other groups of communities. It's a difficult process, as Sam pointed out in the opening statement. There's a lot of competition. But we think we can put our capital to work primarily in, one, in buying new communities and 2, in buying about $40 million in rental homes.

Craig Gerald Kucera - *FBR Capital Markets & Co., Research Division - Analyst*

Got it. And can you remind us what your CapEx budget is for this year? And maybe how, as you look into 2018, what it looks like?

Anna T. Chew - *UMH Properties, Inc. - VP, CFO and Director*

Well, for this year, our CapEx budget is approximately $9 million, which is about $500 per site. But remember, we have -- our acquisitions are value-add acquisitions. So that's the reason for $9 million. Next year, I don't anticipate as much but -- or maybe it's the same. It depends on the acquisitions that we do and the capital that's needed for that.

Samuel A. Landy - *UMH Properties, Inc. - CEO, President and Director*

One place we're finding substantial return on investment in our capital improvement is in replacement of waterlines. We have one particular community, where we're going to make 20% on capital by replacing the waterlines. And these older communities which we're purchasing, it's a great capital improvement that saves considerable money for many years going forward.

Eugene W. Landy - *UMH Properties, Inc. - Founder and Chairman*

There're 2 aspects to CapEx. CapEx in the parks that are brought up to our standards, we have a certain amount of CapEx we budget every year. And the parks that we buy, if we buy $100 million worth of parks, we know ahead of time that we're going to spend $10 million, $15 million, $20 million upgrading to our standards. And that's a different type of CapEx. And the third type, which Sam just mentioned, is there's a modern trend to having the separate meters for water and solar. That's good for the tenants, it's good for us. And upgrading our water sewer provisions is a capital budget that actually produces income and is best for all of us. So when you talk CapEx, you have to actually separate that into various categories. And as everyone knows, in the manufacturing housing sector, our recurring CapEx is a relatively small percentage of our operating income. But the numbers can be quite large, if you add in the other categories.

Craig Gerald Kucera - *FBR Capital Markets & Co., Research Division - Analyst*

Right. You mentioned the oil and gas lease. Was that booked earlier in third quarter or was that a second quarter event? And when you talk about an 18% royalty, do you have any sense of what that equates to from a dollar perspective?

Anna T. Chew - *UMH Properties, Inc. - VP, CFO and Director*

On the $200,000 approximately, that was booked in the second quarter as miscellaneous income. Regarding the 18% royalty, we have no idea how much. It all depends on how much oil and gas is produced, and how much is removed from our property. And we do not know when either.

Craig Gerald Kucera - *FBR Capital Markets & Co., Research Division - Analyst*

Right. Okay. One more for me. Just would like to ask about sales. There was a nice bump year-over-year. Are you seeing better qualified buyers walking in the door or have you seen any lending standards loosening?

Samuel A. Landy - *UMH Properties, Inc. - CEO, President and Director*

Okay. So I'm going to give you a long answer to that question. First of all, everything in manufactured housing is improving dramatically. There's 2 books you have to read to understand this industry. One is Jim Clayton's First a Dream and the other is Peter J. Wallison's Hidden in Plain Sight. And Peter Wallison's book is about how government policy really distorted people's housing decisions from 1994 on. 1994, they started out something like 28% of all Fannie Mae and Freddie Mac loans had to be to people who couldn't really afford the loans. And by 2005, that had risen to over 50% of all loans had to be to people who really couldn't afford it. And these incredible distortions in the housing market resulted in manufactured housing shipments falling from as high as 300,000 shipments per year then down to 100,000, then you have the housing recession -- or the full recession that knocks the shipments down to 40,000. So we're only beginning to come back to any sense of normalcy and especially in the retail distribution network of manufactured housing, that was completely decimated and is gone, and that has to come back for shipments to go up. But in terms of people's acceptance of the product in a rational housing market, you see UMH renting 800 or 900 brand-new homes per year, you see our sales beginning to pick up. The acceptance of the homes is phenomenal and it is going to only improve as more word-of-mouth gets out there as to what great value it is to live in a manufactured home, either as a rental unit or by purchasing it. We see sales just growing for us and for everybody in the industry. We think that UMH is purchasing the communities with vacancies, it was just a great strategic move. We knew how difficult it was to obtain approvals to build communities and to buy these vacant sites and to have vacant sites available as the economy is strengthening. Yes, the buyers have better credit, better income. Everything is just so much easier working today than it was 3 or 4 years ago. So it's all going very well on sales.

Operator

And our next question comes from Brian Hollenden from Sidoti.

Brian Christopher Hollenden - *Sidoti & Company, LLC - Research Analyst*

Following up on the last question, were any of the home sales to former renters?

Samuel A. Landy - *UMH Properties, Inc. - CEO, President and Director*

Yes. We're always some selling some homes to former renters. I don't have the exact number in front of me right now. But it's a percentage, but it's not a substantial percentage.

Brian Christopher Hollenden - *Sidoti & Company, LLC - Research Analyst*

Okay. And then when you think about undeveloped acreage that you own, how realistic is that opportunity to develop that land into homesites? Has there been any zoning changes at any particular properties?

Samuel A. Landy - *UMH Properties, Inc. - CEO, President and Director*

In our annual report and in our presentation, we set forth for you how many lots we're working on for the next 5 years. And if it's in that chart, which comes to about 1,000 lots, it's very realistic that we are going to get the approvals and build those. And then on the remaining vacant acreage, which is, I'm going to say off the top of my head, it's 1,000 vacant acres, and Anna's handing it to me, so I have it in front of me. Yes, the vacant acreage is 1,500 vacant acres. The site's plans for expansion through 2022 is 1,171 sites. It's very realistic on the 1,171 sites. You can figure about 4 homes per acre, 1,500 acres is 6,000 sites. Some of that gets much more speculative, because you do have to fight the zoning battles. And in some cases, we've already been fighting those zoning battles for the past 10 years. You also have to deal with wetlands and steep slope and things like that. But when I use the number, 4 homes per acre, I'm making allowance for all those factors. The #1 factor preventing us from building there rapidly is the approval process and we're working on that every day. But again, you never know when you're going to get the approvals, and it's a very difficult process. But those lots put there for 2017, and it's on Page 24 of our presentation, 291 lots. I believe they're going to be built, the 263 lots for 2018, 223 lots for 2019. We put them there because we believe we can build them.

Eugene W. Landy - *UMH Properties, Inc. - Founder and Chairman*

If I can add to that, it's much more profitable for us to continue buying existing communities, fill them up, turn them around, put in rental units. But if you really look long term, we want to build a company that has the capability of selling manufactured homes, a distribution network, and we want to build a company that has the ability to build new communities. We believe as the housing shortage grows, there will be severe pressure on those that keep the barriers up at the present time, to take those barriers down so that we can build new communities.

Brian Christopher Hollenden - *Sidoti & Company, LLC - Research Analyst*

Yes, I appreciate the color on that. Just a last question for me, as you look at your current geographic locations, are there any regions particularly strong that you want to expand through acquisition?

Samuel A. Landy - *UMH Properties, Inc. - CEO, President and Director*

I have this right in front of me. So in Ohio, our occupancies increased by 108 lots since January 2017; Eastern New York, plus 21%; Western New York, there's no change; it's plus 21 lots; Tennessee, plus 23 lots; Indiana, plus 61 lots; Western Pennsylvania, plus 21 lots; Eastern Pennsylvania, no change; Michigan, plus 12 lots; and New Jersey is down 13 lots, but we don't worry about that because they have 95% occupancy and those are homes we removed to have profitable sales. So what we see having the Vice President of the country from Indiana and the whole Ohio/Indiana/Western Pennsylvania area, it's incredibly strong, and we'd be happy to continue to grow there. Eastern Pennsylvania/New Jersey, that's always strong. We made our first purchase in Maryland, and we're very excited about that, and we see additional opportunities in Maryland. So it remains -- the only slow area we see is Western New York. We're not going backwards there, we're not going forwards there. But I tend to believe most of the country's going to grow more rapidly and stronger than it has in the past. And I think there's going to be -- whether you're buying turnaround communities or you can find vacant lands to build communities, I think it is going to be far better than -- next 10 years than it was the past 10 years.

Operator

Our next question comes from Rob Stevenson from Janney.

Robert Chapman Stevenson - *Janney Montgomery Scott LLC, Research Division - MD, Head of Real Estate Research & Senior Research Analyst*

Sam, what are you seeing with these days in terms of cost pressures and increases on the price of homes? Is it 3%, 5% or are the cost of homes, given material cost increasing and other stuff, increasing more or less than that?

Brett Taft - *UMH Properties, Inc. - Corporate Officer and VP*

I was going to say, looking at some of the increases we've seen this year, it's probably on the lower end of that, I guess around 3%.

Anna T. Chew - *UMH Properties, Inc. - VP, CFO and Director*

Right. It's about 3% right now.

Samuel A. Landy - *UMH Properties, Inc. - CEO, President and Director*

And the manufacturers do an incredible job. They send us a notification if there are cost increases. But even so, it's currently...

Anna T. Chew - *UMH Properties, Inc. - VP, CFO and Director*

It's about 3% right now, I believe.

Eugene W. Landy - *UMH Properties, Inc. - Founder and Chairman*

What is the backlog on time, though, of this?

Brett Taft - *UMH Properties, Inc. - Corporate Officer and VP*

Most of the factories are running 6 to 8 weeks.

Eugene W. Landy - *UMH Properties, Inc. - Founder and Chairman*

6 to 8 weeks, that's a good sign that demand is increasing for our product. It's fast and it takes 6 to 8 weeks to get a home and set it up now.

Robert Chapman Stevenson - *Janney Montgomery Scott LLC, Research Division - MD, Head of Real Estate Research & Senior Research Analyst*

So given what rental pricing is on apartments, increasing more than that as well as single-family homes for the most part, is that the affordability is actually increasing for you guys rather than staying flat versus other housing alternatives?

Samuel A. Landy - *UMH Properties, Inc. - CEO, President and Director*

And that will always be with -- our #1 competitive advantage in the cost of providing a rental unit is the number of sites we acquired at very low prices. We acquired them -- to build a site costs $70,000, and we could almost say we paid nothing for the vacant sites because we bought them on a cap rate. So our competitive advantage is huge. And then if you compare a community to be built, where you're going to pay about $70,000 to build the site and you'd probably use a higher-end home, a larger home than we used for our current rental. But if you use the current rental, you'd be $40,000, you'd be $110,000 to create a 1,000 square foot, 3-bedroom, 2-bath house versus people building apartments today at over $220,000. So we'll remain competitive for at least the foreseeable future.

Eugene W. Landy - *UMH Properties, Inc. - Founder and Chairman*

And I'll add to that, which I always do, we provide 3 bedrooms, 2 baths for $650, $750, $800 a month and in any area you want to look at, that's highly competitive, and it's substantially below the rental cost of a comparable apartment/unit.

Robert Chapman Stevenson - *Janney Montgomery Scott LLC, Research Division - MD, Head of Real Estate Research & Senior Research Analyst*

Okay. And then you guys haven't -- aren't new kids on the block, you've been around for a while, and you've got a lot of assets in the southern part of both Eastern and Western Pennsylvania. What took you guys so long to get into Maryland? Was it something structurally? Was it just opportunity? Was it a situation where you guys really weren't looking there previously?

Eugene W. Landy - *UMH Properties, Inc. - Founder and Chairman*

Let me answer the question a little differently. We budgeted $100 million and a year of our time to get into Florida, and we were unable to get into Florida. The cap rates there are just too low. You have to appreciate you just don't move into an area. It's a long-term process. You meet the owners, you talk to them, you've talked to them for years, you get to know them. And it's a very personal relationship. We have a wonderful team that has done a remarkable job for our company in building up a whole list of potential acquisitions. And we're now in the first phase of that in Maryland, lining up a few more acquisitions. It takes time. It takes a lot of time.

Operator

(Operator Instructions) Our next question comes from Michael Boulegeris from Boulegeris Investments.

Michael G. Boulegeris - *Boulegeris Investments, Inc. - President and CIO, Principal Research Analyst and Portfolio Manager*

Congratulations on strengthening your recent balance sheet activities and the resultant more efficient capital structure. Anna, how much more room is there for improvement in the expense ratio in the back half of '17 and may be looking on into '18?

Anna T. Chew - *UMH Properties, Inc. - VP, CFO and Director*

There are -- there is more room, because as we add the rental homes as we said, as we drive occupancy up, the expenses do not go up at the same rate as the revenue would go up. So I foresee additional savings and additional decreases in the expense ratio.

Samuel A. Landy - *UMH Properties, Inc. - CEO, President and Director*

At this point we believe we're going to reduce the utility costs, which is significant. And then the other thing I look at, when you look at all of UMH's expenses, the percentage that payroll is of revenue, the percentage that real estate taxes are or water or sewer, nothing even comes close to the cost of capital. Whether it's the amount of money we have in debt, the payment of the preferred dividend, the payment of the common dividend, and we're going to reduce those. We just dramatically reduced the cost of the preferred from 8.25% to 6.75%. And just as our income and our profitability increases, regardless of what interest rates do, our cost in comparison to other companies will go down. So we're very encouraged about that.

Anna T. Chew - *UMH Properties, Inc. - VP, CFO and Director*

Just to add, regarding our interest rate, as we said we continue to try to reduce our interest rate, and we're now at 4.3% for our mortgage rate. So we keep on continually look at mortgages that we can refinance and keep on bringing that down.

Michael G. Boulegeris - *Boulegeris Investments, Inc. - President and CIO, Principal Research Analyst and Portfolio Manager*

Sam, in your June presentation -- investor presentation, the indication that UMH plans to acquire acreage within 5 miles of its communities for self-storage, does this represent a major company initiative in all geographic regions? And does this have potential to become a meaningful adjunctive income stream in the next 2 to 3 years?

Eugene W. Landy - *UMH Properties, Inc. - Founder and Chairman*

This is one of my projects. The answer is no, on the financial aspect of it. The answer is yes, on making your parks much nicer. You want the tenants to keep nice lots. You want to drive through a great community. Having 20, 30, storage facilities there gets all the junk off the lot, gets it into the storage facility. And we make money on it, and it's profitable but it's not a significant thing from that point of view. But because we're talking about $50,000 to $100,000 in a park to put it in a storage facility after we do all the legal and get the zoning approvals. But once we put these in there, we think it'll be significant in upgrading what the park looks like.

Samuel A. Landy - *UMH Properties, Inc. - CEO, President and Director*

I think we did finalize the approvals on one self-storage facility since our last call. So we will be building a self-storage facility at Fairview Manor in Vineland, New Jersey. And what we do -- we constantly look at the vacant land, and we try to determine the highest and best use for it. And if we can find a use, whether it is going to be a rental or sale, we have one piece of property approximately 4 acres across the street from the Toughkenamon hospital in Oxford, Pennsylvania, and we're sure at some point, somebody's going to build an office building there, whether we're renting them the land on selling them the land. We are always looking at that.

Michael G. Boulegeris - *Boulegeris Investments, Inc. - President and CIO, Principal Research Analyst and Portfolio Manager*

Okay. So on a sequential quarterly basis, I believe your rental homes soften incrementally, can you discuss seasonal factors that may influence the rental side of the business?

Samuel A. Landy - *UMH Properties, Inc. - CEO, President and Director*

What we see on the rental demand and the sales demand, winter is always the toughest, right. Less people are moving, less people are buying homes. You get some bump from the tax refunds in January, but other than that, winter is your toughest time. People move at the most rapid rate right after school's over or right before school begins. So we still expect to pick up right at this moment, and in fact, I believe we're feeling it on both sales and rental occupancy. So yes, it'll slow back down again, September/October as school starts but this is a very busy time of year right now. And that's how the cycle works.

Eugene W. Landy - *UMH Properties, Inc. - Founder and Chairman*

The top line is moving ahead nicely and the bottom line will follow. I always tell people, don't use too sharp a pencil over one quarter, $100,000 item in one quarter annualizes $400,000, but it doesn't work that way. We're getting our expenses down, and our revenues are growing nicely. Over a period of a year, we'll have very good numbers.

Michael G. Boulegeris - *Boulegeris Investments, Inc. - President and CIO, Principal Research Analyst and Portfolio Manager*

Are you confident, Sam, you're going to reach your 800 to 900, let's say, revenues this year?

Samuel A. Landy - *UMH Properties, Inc. - CEO, President and Director*

Yes. My Vice President of Rental Units, Ayal Dreifuss, Who does an incredible job, was getting a little nervous that it might be 750, because the factories are a little bit backed up, et cetera, but we say we want 800 and everybody out in the field said we think we can do it. So we think we're going to make it to 800.

Michael G. Boulegeris - *Boulegeris Investments, Inc. - President and CIO, Principal Research Analyst and Portfolio Manager*

Good. And lastly, we have our Chairman with us, so Gene, I know you and the board remain committed to secure qualitative common dividend. It seems like UMH is well positioned perhaps to consider a dividend increase given your strong fundamentals and stability of cash flows and maybe more importantly, the significant underlying increase in the value of your properties. Is this a fair read? And might you share some of your recent thoughts on the UMH common dividend?

Eugene W. Landy - *UMH Properties, Inc. - Founder and Chairman*

Let me start with what we think is -- we like to think we run a very good company with good corporate governance. And I speak out constantly that good corporate governance includes, as one of the most important things, distributing your cash flow to your shareholders. One company may distribute nothing, another company may distribute 50%, another company 75%, 80%. So the Board of Directors who sets the dividend. We try to set a standard that we are a leader in distributing as much cash as possible back to our shareholders, so they can make the decision whether to reinvest in UMH or other companies. And we think that's a real sign of good corporate governance and we think other companies -- and people that measure corporate governance should put that standard into their criteria when they say this company is well run and another company is lesser well-run. So we're very confident that we can raise the dividend, and we have a policy that we think it's good corporate governance. Right now, we're in the process of raising -- not raising, we raised the capital. I can't tell you how strong our balance sheet is, and that's very important. The banks are always willing to lend you money, when you don't need it. And so our credit is improving dramatically and that's important to a company because we're competitive when we go to buy parks, we buy them at certain cap rates, and we have to know what our cost of money is. We're competitive with everybody. I mean 4% for 30-year amortization tenure is a very competitive rate. It allows us to compete to buy parks. We're very well capitalized. We really think that the top line is, the income numbers, the rental and related income is growing nicely. It's over the rate of $100 million a year right now, and we hope that it will continue to grow as in the past. So we're optimistic that we can raise the dividend. Having said that, we want to get -- we want to see exactly where we are. We have a big job to do. We have to put out as much as $50 million, which means we have to buy maybe $100 million in parks. We are proceeding with buying $40 million in homes, and we think after we get done with all the acquisitions and the continued improvement in the condition of the parks, the board will consider the dividend. But I can't tell you whether it'll be the next quarter or the quarter after, until we finish up on those other major projects I mentioned.

Operator

And ladies and gentlemen, this will conclude today's question-and-answer session. We'd now like to turn the conference call back over to Samuel Landy for any closing remarks.

Samuel A. Landy - *UMH Properties, Inc. - CEO, President and Director*

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

Operator

And ladies and gentlemen, with that, the conference has now concluded. We thank you for attending today's presentation. The teleconference replay will be available in approximately 1 hour. To access the replay, please dial U.S. toll-free at 1 (877) 344-7529, or internationally 1 (412) 317-0088. The conference ID number is 10108600. We thank you, and please disconnect your lines at this time.
