Craig Kucera: Thank you for joining us today. My name is Craig Kucera and I am the managing director of Equity REIT Research at Wunderlich Securities. On our panel today, we have several representatives from the senior management team and board of UMH Properties, Inc. On my left, we have Mr. Samuel Landy, the President and Chief Executive Officer of UMH. To his left, we have Mr. Eugene Landy, Chairman of UMH, and finally we have Ms. Anna Chew, the Chief Financial Officer and Vice President of UMH.

Before we get to some Q & A today, I thought it would be useful to hear some background on UMH - first discussing the company's inception from Eugene, given his role as a founder, and then an update on how the business has shifted as the manufacturing housing market has changed over the past several years, from Mr. Samuel Landy. Eugene, would you mind giving us an overview?

Eugene Landy: I've been told to talk about the history of UMH, but I really want to talk about is the future of UMH. It's an old industry in a sense, I see a lot of young people in the room, it's a 60, 70 years old manufactured housing industry and it still is an idea that has not come to fruition. If you ever build a house onsite, you will find immediately that there's a lot of inefficiencies and it's not the best thing to do and it's the hardest thing to do. The way to build a house is to build it in a factory, on an assembly line, and the cost of construction drops dramatically, particularly if you can get into the production of 100, 200, 300 thousand units a year. You know, the automobile is a marvel, what goes into a car, all the electronics, and all the efficiencies of building automobiles. If somebody said you're going to build an auto in your garage, people would laugh at you.

The way to build housing and get affordable housing is to build it in factories. The wealth of the country comes from the fact that we become more productive and more efficient in almost every area but housing. We still build most of our houses the way we did 50, 60, 70 years ago, and the house, too, is changing. We have electronics and communications and security for the owner of the home, and we have the internet, and we have utilities that we become more efficient on using electric and gas. The house should be a very complicated thing and the best place to build a house like that is in a factory. You put the safe in, you weld it to an iron beam, and you put in all the material you need for the communications facilities, and you ship this unit , 16 x 70 foot units, and you're over the highway, and you get them installed. It's just a marvelous way to do it.

They've been trying in New York City for decades to build apartments by building the units in factories and shipping them onsite for installation. It's a basic concept. We live in an era of new ideas and venture capital, and here's a 50, 60, 70 year old industry that still has not come to fruition, and most of the barriers, by the way, are governmental, legal barriers that have prevented our industry from succeeding. Our interest rate on our mortgage is 8%, and the interest rate on conventional homes is 3.75%, and most of this is due to barriers that the government has put into place. We're still optimistic about the industry, in fact it's got to happen, because all over the world there is a shortage of affordable housing. There's a shortage of affordable housing everywhere, and it's a need for the people. We have 5 million people living at home with their parents, which is a record number, 2, 3 million above the numbers before. The population of the United States goes up by about 2.5 million a year and wages are relatively stagnant, and so they can't afford the housing. They want to get married and have 2, 3 kids, which they've done forever.

It's a great industry to be in and we pride ourselves. I pride myself on the people we have around us. My son Sam, Anna Chew, we pride ourselves as being industry leaders. You know, we give away free copies of a book by Jim Clayton. What is the title of the book, Sam?

Samuel Landy: First A Dream

Eugene Landy: First A Dream, which is about the industry. We believe in the industry and we want to be leaders in the industry, and when we run UMH, we want to just not run it as a real estate trust, and not just as a company to make money, but we run it as a company to create affordable housing for the American population and we're trying to do everything we can to be an industry leader and have the company solve the problems which are very hard to solve: affordable housing. The government does have a program that is working, and that is the program from Freddie Mac. We are able to get 3.75 to 4.25% mortgages on our communities. Now the difficult thing, the next area we have to do, is have the same financing for a manufactured house that you get for a conventional home. If we can solve that problem, we hope to open up the housing market to the population that is not well served. 50 years ago we sold about 200-250 thousand homes a year. Now we're down to 70-80 thousand because right now, it is the hardest area to get homes for the people with the lowest income.

Despite many multi-billion dollar programs, the government has not found a way to do it yet. So I just wanted to start in by it's a blessed industry. We used to have companies in the Forbes 500. We have great companies in the industry and we think UMH is one, it's taken us 40-50 years, but in the scheme of things, that's not out of the ordinary. Of course, we've done very well. The company has survived and made money for its shareholders and the stock has done well. There was a period of time when we went from $2 a share to $17 a share. The dividend went from $.10 to $1.00, and that was when manufactured housing was selling 250-300 thousand units, and of course today we're back down. We went down to 50,000 in the recession and we're only up to 70,000. We're trying to get this industry back up to 150-200 thousand a year. Sam, do you have anything to add to that?

Samuel Landy: Manufactured housing in land-lease communities is the best affordable housing, and the problem has been the loan. Obtaining financing for our buyers has been difficult to impossible since about 2008, but we found a solution to that and Sun Communities pioneered it first. It's rental units in manufactured home communities. Sun Communities added 9,000 rental units. Their stock went from $7 to something over $60. UMH didn't go into rentals as quickly as Sun did. We wanted to make sure that we had bank acceptance of rental units as well as investor acceptance of rental units. The bank acceptance came when Freddie Mac lifted the restrictions from only allowing 5% rental units in a community to now allowing 50% or more for a good operator. In fact, we're working with Freddie Mac right now. We may open Memphis Blues as an all rental community, and the current scenario is you get a Freddie Mac mortgage on the land, but then you have to buy the house and get a separate loan on the house.

Even if we own both and we're doing it as a rental unit, we might be paying sub 4 on the mortgage of the community and paying 7% on each rental unit, because it's a separate loan. It's a loan that's secured only by the chattel, the house, it's a title loan. We've explained to Freddie Mac, "Look, when the same person owns the community and the house, why can't you secure it with one mortgage? It's going to one entity, one person." They said, "You know, if you do one community that's rental only ... " They don't want to have to worry about which house does the tenant own, which house do we own? "If you do one community all rental homes, we might be able to give you the first mortgage in the country that's going to be a sub 4% on both the homes and the land."

We're working on that now, and it's going to be Memphis Blues, and if it actually happens, we're basically the best form of apartments ever built, and why can't we get the best mortgage. Go to any other apartment, you have a common wall neighbor living to the side of you, somebody living above you, somebody below you. They overflow the bathtub, it leaks in your house. They leave the gas can by the lawn mower, it catches on fire, so does your house. You have no common wall neighbor, nobody above you, nobody below you, three bedroom, two bath house, we buy and set up from the factory for $40,000. The house will last 40+ years. It'll last as long as any apartment. We want a 20% gross rent, which means we can charge as low as a $670 per month, and in every market we're in, the demand for affordable rental housing is incredibly strong. We did fantastic in Nashville. You all have your investor presentation. You can look, and we show you what we did with communities that we bought.

In the case of Weatherly Estates, we bought it in 2006, 56% occupied, added the rental units, got the community occupancy up to 95%. You'll see what that does to FFO. You'll see what that does to value. We've done that community after community in Nashville; Indiana is performing just as well. The Pittsburgh area is doing fantastic. There has been some slowdown in some locations due to less Marcellus and Utica shale drillers, but take Magnolia, Ohio, which is completely a Marcellus shale area, where we in fact sold the drilling rights on 100 acres for $500,000 and they still, in that location, have not yet drilled due to the falling oil prices, which means we may be able to sell the rights again, because the lease will expire.

At any rate, what's going on there right now, they're building a giant new school. There's no influx of people at this moment, but they know energy prices are going to come back. The need for the gas and oil shale drilling will be there. The pipeline projects have never stopped. The projects to convert natural gas to plastics, both in Pittsburgh and Ohio, they're going on. They'remulti-billion dollar facilities, and on top of that, low energy prices and/or energy independence results in US manufacturing being competitive. That's why Elkhart, Indiana had 22% unemployment 6 years ago. When energy prices shot up, nobody wanted an RV. It didn't pay to manufacture in the United States. They had 22% unemployment. The community owners in Indiana went from 90% occupancy down to 50% occupancy. They sold to us. We caught the wave of increasing employment. You went from 22% unemployment to signs outside all the factories "Help Wanted." The Clayton Factory, which builds manufactured homes, the sign says "Gearing up for future growth. Now hiring." That's going on all over Indiana.

Very important point: Whatever I tell you about manufactured housing, nothing can show you better than going to UMH.com, under Media. Under Media, you'll see our drone videos of the Indiana communities. You'll see videos of houses. You'll see that we're doing a couple things. One, some of the communities we bought in Indiana, they were built with expansions, beautiful clubhouse. The existing community was 90%+ occupied, they built an expansion. Home sales stopped dead in 2008. They couldn't make it go. They sold to us, now all we have to do is put homes in the expansion, doing fantastically well. Other communities might be an older community, built 30-40 years ago. The existing owner did not make capital improvements, did not remove old homes. For UMH, it's so easy because we have the capital. We look at the community and first understand the customer. How does a person decide where they want to live? First you choose in which state you want to live, right? Is this the state you want to be in? Where's my job? What town do I want to be in? Then you're going to find out what neighborhood am I going to live in, in the town.

If you go through a manufactured home community and all the homes are from the 1970s, metal on metal, bad paint, bad roof, garbage in the yard, you're not moving there. If you're the resident we want, you're not moving there. So we come in and we buy that community, we do the evictions the prior owner didn't do. We send people notices, "You have to paint your house. You have to clear your yard. You have to maintain the facility." If they do it, fine. If they don't do it, we might buy their house, they might be evicted for rules and regulations violations. But we take this community, and we told people this 6 years ago, what's going to happen is when we buy a community, first occupancy is going to go down. We bought it at a 7, 8 cap. First, the cap rate's going to go down. But then, we're going to put the new homes in, we're going to upgrade the entrance, we're going to fix the clubhouse, we're going to market it, and then the occupancy goes up from 70% to 100%, and we've done it time and time again.

People are desperate for affordable housing. The rental unit solves the problem of the customer who didn't have 10% down, who couldn't qualify for a loan. To move in a manufactured house as a rental unit, all you need is one month's rent, one month's security, $1,500. I have a guy, he was setting up 7 rental units outside of Pittsburgh, completely set up, two weeks later all 7 rented. He's putting in 9 more right now. This happens to us community after community.

Now I'm just going to read you something for a second: Our results at the end of the first quarter of this year. Increased core FFO to $.17 per share, representing a 30.8% increase over the prior year period and a 21.4% increase sequentially. Increased normalized FFO per diluted share to $.16, representing a 23.1% increase over the prior year period and a 14.3% increase sequentially. Increased rental and related income by 26.5% over the prior year period. Increased community net operating income by 33.6% over the prior year period. Increased same property occupancy 140 basis points over the prior year period from 82.1% to 83.5%. Increased same property NOI by 16% over the prior year period. Decreased our operating expense ratio 270 basis points over the prior year period from 51.2% to 48.5%.

All of this is what we've said at each of these meetings for the past 6 years we were going to do. The acquisitions were over a 6-year period. We purchased 70 communities, 10,950 home sites, for $315 million at an 8 cap. Everything I just read you that we did is small potatoes compared to the value we added to those communities, okay? The value added, it cost $70,000 to build a site today. You've seen acquisitions at $70,000 a site. When we improve these communities to first class communities, 90%+ occupied, they're worth far more than we paid and that amount far exceeds anything that I just read you that we did on FFO. So, now we'll answer any questions.

Craig Kucera: Thank you gentlemen. I'll kick it off with a few questions and then open up to the audience. I'd like to talk about the regulatory environment. Obviously Dodd-Frank has hampered sales. Are you seeing anything on the horizon that might help kickstart sales?

Samuel Landy: The first thing that will kickstart sales is, as people’s incomes increase, they can have the down payment and they can qualify, despite Dodd-Frank, the Safe Act, and Truth in Lending. The first thing is higher incomes, which we're seeing, which is growing sales. So that's a good thing. The talk is that after the election, both the Democrats and the Republicans agree that Dodd-Frank, Safe Act, Truth in Lending, needs to be amended to help the people who need affordable housing.

It's beyond my ability to predict what Congress and the President will do, but they say it's coming.

Craig Kucera: Very good. I think it was nice, you did see a nice pick up in sales here in the first quarter year over year, and we'd be interested in hearing if traffic patterns have continued to remain strong as we move through the second quarter, and are you seeing a continued losing, albeit marginal, on the lending side?

Samuel Landy: The best thing that happened is we changed our finance relationship to a system with Triad, which is a company out of Florida, and they handle the approvals on the loan and we fund the loan. This is working out fantastically. Our approval ratio is way up. That's what's generating additional sales. Rental units generate sales, by the way. Somebody moves into a single section house, they might move in alone. Eventually they get married, they have kids, they buy a larger house. They get to know the community. Rental homes do generate sales, both of the existing rental unit and of new homes. This whole period of time, so first go back, UMH built Fairview Manor and Highland Estates and there were years that we sold 75 homes at a single community and made money. 2006 we generated $16 million in sales and made $2 million. It has been impossible since then. We've more than doubled in size, and our sales are only $8 million.

We see significant opportunity to increase sales. We continue to work on getting our expansions approved. We're building 34 lots in Saratoga, New York right now, which is a great market. There're places we're building where we expect sales profits, and so far every sign is sales are increasing.

Craig Kucera: Your same store NOI growth over the last year has been really incredible. This quarter I think it was up about 17%, and that was off of a very tough comp. Your occupancy is still in the low 80s, your margins are still in the low 50s, where do you think the overall portfolio can eventually go, and how long do you think you can keep putting up these mid double digit same store NOI numbers?

Samuel Landy: There are 3,800 vacant sites. We have no question that we can add and most likely fill 800 units during the year, which generates an additional $6.4 million in revenue. On top of that, there'll be a 3% rent increase on the portfolio we owned the year prior, which generates another $2.5 million in new revenue. We've always said that a stabilized community, and stabilized is over 80% occupancy, operates on a 50% expense ratio if we're paying the water and sewer, and a 30% expense ratio if the resident is paying the water and sewer. When we made that first group of acquisitions, going back 6 years, the percentage of the pie that the new communities were, brought the expense ratio up to 54%. Now we have a much bigger pie and as we add acquisitions, even though they need work, the expense ratio is staying under 50%.

New rental units have almost no expenses. There's taxes, sometimes we're paying the water and sewer on those, but there's very little expenses with a new rental unit. They're generating revenue without expenses, which helps improve that ratio. Even today, when I look at expenses, there's home removal on acquisitions, there's tree removal on acquisitions, and there's some other expenses and I believe we have $1 million in non-recurring expenses still today, related to bringing acquired communities up to our standards, and so someday that $1 million in expenses will go away.

Eugene Landy: I just want to repeat what Sam said in as simple a way as possible. We have an 18% vacancy. Historically, manufactured home communities have been full, so we can go up 18% there. Apartment rents are going up about 5% a year. Home values are going up 6% a year. It looks to me like over a 2-3 year period we can go ahead another 10 or 15% with the increase in the rents, and our expenses are at 50%, a little above industry norms, and we can pick up another 2 or 3%. You can see that the numbers we showed in the first quarter this year, we fully anticipate that those numbers will continue in the second, third, and fourth quarters, and that we should have a very good year. On top of that, we have an almost unique program of REITs investing in REITs, and UMH has a portfolio of about $100 million and we hope to make about 7% in dividend income, and we hope to have about 10% in gains, and that's a lot of money to a REIT that has 27 million shares out trading at about $10 a share.

Craig Kucera: So it sounds like there's a lot of value, obviously, in the existing portfolio through occupancy and margin gains. I'd like to talk about your acquisitions. The last several years, you've really found a niche where you can take advantage of being a REIT - lower cost of capital. I guess as the economy is improving, as you alluded to in some of these secondary and tertiary markets in Indiana for example, are you finding as much distress? Are the mom and pops seeing their occupancy improve so that's it getting a little tougher to find acquisitions today?

Samuel Landy: First, the mom and pops have no ability to do what we're doing because they can't get the loans to improve their community and they can't get the loans to add the rental units. That end of the business is wide open to us. There are more people acquiring communities than ever, but they're not so much in the turnaround business, and in fact we acquired communities from Sun Communities, and the major players don't seem to want the turnaround business and we like that business. That opportunity continues. We have non-contracted deals pending, you know the contracts aren't finalized. I just want to tell you, in our presentation we show you that there were years we did no acquisitions, and we did no acquisitions because all the communities were 90%+ occupied, they were trading at very low cap rates, and we just didn't think acquisitions were the way to go.

Instead we did expansions. We built sites where you make $30,000-$40,000 on a sale, which at that time was paying for building the site, and then you collect the lot rent forever. There will come a time when there are no acquisitions available, but UMH owns over 1,000 vacant acres. Somebody got that confused and so I want to clarify that. When we have 3,800 vacant sites, the vacant acreage under those sites, that's not counted in these 1,000 acres I'm talking about. Those

3,800 sites are fully permitted, fully approved lots that were built with the original site plan. Separate and apart from that, we own over 1000 acres adjoining our communities plus 220 acres in Coxsackie, New York, that we can continue to get approvals to expand communities.

One of the things I know, the most difficult thing in the world is to get a manufactured home community approved. It's a near impossibility, but if you own the vacant land adjoining your community, you at least have a chance. The laws are when there's no more affordable housing in town, a municipality in some states, has an obligation, a constitutional obligation, to provide affordable housing. When the municipality asks itself where are we going to provide that housing, they say well we might as well do it next to the existing affordable housing, and we might as well let an operator who has a 30-year history with us, do it. So that land you have a chance to expand on.

Craig Kucera: At this point, we've got about three minutes left, so I would like to open it up to the floor. If anyone has any questions, please, we'd be happy to take them.

Audience Male 1: You said that you're able to, or a lot of your buyers, are not able to get financing to buy a home. I'm sitting and wondering if the rental units are such a great deal for you. Yeah, you don't get to book an immediate profit, but aren't you better off if you're making the investment, leasing the property, and getting a long-term cash flow out of it?

Craig Kucera: So the question is in regard to investing in rental units, versus selling a home.

Samuel Landy: I agree with you 100%. The house is going to last 40 years. We're going to collect $8,000 a year, plus rent increases. I'd say it's, in present value dollars, $8,000 a year for 40 years. You can collect $320,000 on a $40,000 investment. What could be better than that? The finance companies have had too good a deal, and we can get that deal by doing rental units. At the same time, many communities were built for single section homes, and so rental units are the perfect thing. Some communities were built for multi section - clubhouse, swimming pool. There, the market's going to turn, and you're going to be realizing $40,000 or more profits, we'd like to get the profits there, but as a general matter, rental units are a fantastic way to go.

Craig Kucera: We have another question here.

Audience Male 2: On your all rental community that you're buying, does that have to be all IRC homes?

Craig Kucera: The question is whether or not the Memphis Blues community needs to be all IRC homes.

Samuel Landy: First, what does IRC homes mean?

Audience Male 2: Well, modular.

Samuel Landy: Oh. Modular vs HUD Code. HUD Code is just built to the national building code, so I, who have been doing this since 1980 something can't tell the difference between a HUD Code house and a modular physically looking at them. The difference is, a modular home is built to the local building code and a HUD Code home is built to the national code. These will all be HUD Code houses.

Audience Male 2: Okay. My understanding is Freddie Mac will only lend, to businesses in Colorado, they have to be on land to get the Freddie Mac loan.

Samuel Landy: So you ... I'm going to repeat the question and answer it. The question is does Freddie Mac lend on HUD Code homes as rental units. The fact is everything Freddie Mac's done in the last 4 to 5 years is a developing process. They want to provide financing for affordable housing and UMH is like their poster child for a great operator. We have a fantastic relationship with them. They're incredibly impressed. They've watched us turn around communities. We're their favorite borrower, so when we suggest to them we want to do a rental unit program, even though they don't currently have that program, they want to write it for us.

Craig Kucera: And with that, we run out of time. Thank you very much. The senior management team of UMH Properties.