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UMH - Q2 2016 UMH Properties Inc Earnings Call

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PRESENTATION

Operator

Good morning and welcome to UMH Properties' second-quarter 2016 earnings conference call. (Operator Instructions). Please note this 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, 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 provides 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 2016 earnings release and filings with the Securities and Exchange Commission. The Company disclaims any obligation to update its forward-looking statements.

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 Landy - *UMH Properties, Inc. - President & CEO*

Thank you very much, Nelli. Good morning, everyone and thank you for joining us. We are pleased to report our results for the second quarter ended June 30, 2016. UMH is having a strong year due to the performance of our communities, our rental home program and our securities portfolio.

The positive momentum created by our strong first-quarter performance has continued into the second quarter. Core FFO for the second quarter was $0.18 per diluted share, representing an increase of 50% year-over-year. Following two consecutive years of double-digit normalized FFO per share growth and a 23% year-over-year increase in the first quarter, normalized FFO for the second quarter of 2016 was $0.16 per diluted share, representing an increase of 33% year-over-year.

Community NOI also increased 33% year-over-year. Rental revenue was up 25% over the second quarter of 2015 and our expense ratio improved from 51% in the prior-year period to 47.8% in the current quarter.

It was an excellent quarter for the Company marked by continued value creation through solid same property metrics. Same property NOI increased by 21.4% over the prior-year period driven by a 180 basis point increase in same property occupancy and a 14.1% increase in same property revenue. These results demonstrate the strength of our business plan. We have been 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.

Rental homes is a primary driver of our occupancy growth and performance. We continue to see strong demand for rentals in all of our markets. We've expanded our rental program with the addition of 228 rental homes during the quarter and 410 rental homes year-to-date bringing the total to approximately 4,100 homes.

Occupancy in rental homes continues to be strong and has increased 150 basis points from 92.9% at year-end to 94.4% currently. Occupied rental homes represented approximately 28% of total occupied home sites 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. Rental units are meeting and exceeding our expectations with regards to low maintenance costs, sustained high occupancy and strong curb appeal.

Home sales have also played an integral part in increasing our occupancy. Following a 52% increase in the first quarter, home sales increased by 72% this quarter with $2.8 million in homes sold as compared to $1.6 million in the prior-year period. We sold 49 homes this quarter as compared to 32 homes for the prior-year period, representing an increase of 53%.

Overall, on the national level, industry shipments continue to improve with May shipments representing a 17% increase over the prior year, bringing the seasonally adjusted annual rate of shipments to 75,000 homes. However, this growing number still only represents half of the long-term historic norm of over 150,000 homes per year.

Housing fundamentals and rising alternative housing costs continue to favor our industry. UMH currently owns 98 communities with 17,800 developed home sites located throughout seven states. We've increased the number of developed home sites by 13% over the prior-year period. Our team has done an outstanding job in modernizing all of our communities and adding new rental units. Our communities have won a number of awards, including most recently Community of the Year for one of our Pennsylvania communities.

While a 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. Cap rates have been driven to all-time lows driving prices to all-time highs as can be seen by the large transactions recently announced in our sector. 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 do continue to seek acquisitions in our target markets and anticipate completing several acquisitions in the third and fourth quarters.

Our communities located in the energy-rich Marcellus and Utica shale regions continue to exhibit solid fundamentals. We are happy to report that Royal Dutch Shell finally made its long-awaited decision to move ahead with the construction of a massive multi-billion dollar petrochemical plant in Beaver County, Pennsylvania, which lies in close proximity to a number of our communities.

This plant will convert ethane from Marcellus and Utica shales to ethylene, which is used in the manufacturing of plastics. This project will bring substantial economic growth to the region and is expected to employ 6,000 workers during the construction process.

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

Anna Chew - *UMH Properties, Inc. - VP & CFO*

Thank you, Sam. Core funds from operations, or core FFO, was $5 million or $0.18 per diluted share for the second quarter of 2016 compared to $3.1 million or $0.12 per diluted share for the prior-year period, representing an increase of 50% on a per-share basis. Normalized FFO, which excludes realized gains on the sale of securities and other nonrecurring items, was $4.3 million or $0.16 per diluted share for the second quarter of 2016 compared to $3.1 million or $0.12 per diluted share in the prior-year period, representing an increase of 33% on a per-share basis.

Rental and related income for the quarter increased by 25% from $17.9 million in 2015 to $22.4 million in 2016. This increase was primarily due to the acquisition of 10 communities in 2015, the addition of rental units and the growth in occupancy. Community NOI increased by 33% from $8.8 million in 2015 to $11.7 million in 2016. Community operating expenses for the quarter were 47.8% of rental and related income representing a 320 basis point improvement over the 51% 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 continue to increase and as we upgrade and integrate our acquisitions, these expense ratios will continue to improve.

Our loss from the sales operation, including interest expense, decreased from approximately $456,000 in the second quarter of 2015 to $276,000 for the second quarter of 2016. Although sales of manufactured homes increased 72% over the prior-year period, they have not yet returned to pre-recession levels.

As we turn to our balance sheet, as of the end of the quarter, our capital structure consisted of approximately $332 million in debt, of which $287 million was community level mortgage debt and $45 million were loans payable. 88% of our total debt is fixed rate.

UMH has also continued to take advantage of today's attractive interest rate environment. During the quarter, we obtained two mortgages for a total of $8.3 million. These loans have 10-year maturities and principal repayments based on 30-year amortization schedules. Interest on these mortgages are at a weighted average fixed rate of 4.3%. Proceeds from these mortgages were used to repay an existing mortgage with an average interest rate of 6.7%.

During the quarter, we completed the sale of 2 million shares of our 8% Series B Cumulative Redeemable Preferred Stock in a registered direct placement at a purchase price of $25.50 per share. We raised approximately $49.1 million in net proceeds, which have not yet been fully deployed. The remaining proceeds from this offering will be used to fund our upcoming acquisitions and for the purchase of additional rental homes, which will generate additional per-share earnings accretion.

At quarter-end, we had a total of $187 million in perpetual preferred equity. Our preferred stock combined with an equity market capitalization of $310 million and our $332 million in debt results in a total market capitalization of approximately $829 million at quarter-end, representing a 31% increase over the prior-year period.

From a credit standpoint, our net debt to total market capitalization was 39%. Our net debt less securities to total market capitalization was 26%. Our fixed charge coverage was 1.7 times, our net debt to EBITDA was 6.7 times, and our net debt less securities to EBITDA was 4.5 times.

From a liquidity standpoint, we ended the quarter with $10 million in cash and cash equivalents and $20 million available on our credit facility with an additional $15 million potentially available pursuant to an accordion feature. We also had $20 million available on our revolving lines of credit for the financing of home sales and the purchase of inventory.

In addition, we have taken advantage of substantial discounts in the REIT marketplace and have grown our securities portfolio to $104 million. This represents 13% of our gross asset value. These investments have performed extremely well thus far in 2016 with an unrealized gain of $16.4 million at quarter-end. And now let me turn it over to Gene before we open it up for questions.

Eugene Landy - *UMH Properties, Inc. - 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. UMH's second quarter results are strong. We have delivered solid performance metrics with double-digit growth in core and normalized FFO, rental revenue, home sales and NOI. Same property metrics continue to improve with same property NOI increasing by 21.4%.

As allocators of capital, we have taken advantage of opportunities afforded by the REIT securities market. As we have commented on in the past, there are times when real estate is substantially cheaper on Wall Street than it is on Main Street. The performance of our securities portfolio has been excellent. We are very pleased with our current holdings, which had $16.4 million in net unrealized gains at quarter end. This represents an $18.5 million improvement over the six-month period.

In addition, our portfolio generated a realized gain of $1 million thus far this year and $3.1 million in dividend income year-to-date. The portfolio continues to deliver outstanding performance subsequent to quarter end. Our securities portfolio provides us with additional liquidity to pursue opportunistic acquisitions. It also reduces our reliance on the capital markets for growth capital.

We are very pleased with how 2016 is progressing and believe we are well-positioned for an excellent year. With the anticipated continued growth of our per share earnings, management will recommend to the Board of Directors the continuation of our current $0.18 a quarter or $0.72 annual per share cash distribution.

I would like to take a moment to thank our shareholders, our Board of Directors and our team members for their continued support. Next year, I will have the honor of having served as Chairman of the Board for 50 years. I am proud of the substantial contribution UMH has made to providing housing for all. In order to continue our mission of providing affordable housing for the growing population of the United States, we must redouble our efforts to remove regulatory and legal barriers to new construction and we must continue to build new manufactured home communities. We will now be happy to take questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Craig Kucera, Wunderlich.

Craig Kucera - *Wunderlich Securities - Anlayst*

Appreciated the color on the long-term viewpoint on expense ratios, but was interested as to whether or not there are any one-time reductions this quarter, or was this really just the natural phasing of the portfolio where you no longer have to expense as many improvements upfront as you did in the past given your acquisition pace?

Samuel Landy - *UMH Properties, Inc. - President & CEO*

Well, there's still expenses related to improving communities. There's still expenses related to home removal and tree removal, and someday there will be less of those expenses. But what you will see is that the new revenue is coming in at a 36% expense ratio, so 64% of every new dollar of revenue is operating income and that's about what we always expected.

The rental units, brand-new rental units, generate revenue with very few expenses, and we always told you the expense ratios regarding managing communities, 50% and 30%. So 36% is right where we'd expect it and that's where the new revenue is coming in.

Eugene Landy - *UMH Properties, Inc. - Chairman*

We anticipate a continuing decline in the expense ratio. At one point, we were all the way up to 55% and we are now under 50% and we are going to continue to reduce the expense ratio and increase the operating income.

Craig Kucera - *Wunderlich Securities - Anlayst*

Okay. I know you mentioned you were going to complete a few acquisitions maybe in the third and the fourth quarter, but do you have a rough dollar amount of what you think you might do in the back half of the year?

Eugene Landy - *UMH Properties, Inc. - Chairman*

We have five parks --.

Brett Taft - *UMH Properties, Inc. - VP, Acquisitions*

Five communities, 821 sites for a total of approximately $17 million.

Eugene Landy - *UMH Properties, Inc. - Chairman*

Five communities, 821 sites, $17 million. And like all acquisitions, they always take a little longer than you expect. We were hoping we would close a few today, but certainly we expect this quarter to close on those five communities and we are actively seeking additional acquisitions.

Anna Chew - *UMH Properties, Inc. - VP & CFO*

This quarter and next quarter.

Eugene Landy - *UMH Properties, Inc. - Chairman*

Next quarter too? Okay.

Craig Kucera - *Wunderlich Securities - Anlayst*

Right. Okay. You mentioned the interest in the space, the cap rate compression. What would you say cap rates have compressed over the last 6 to maybe 12 months?

Eugene Landy - *UMH Properties, Inc. - Chairman*

I prefer to refer to our bigger competitors. They give you a lot of color on that. Cap rates continue to go down. Cap rates with the type of park we buy are a little difficult to pinpoint for you. If you buy a full park and you used to buy full parks at 7%, 8% and cap rates go down to 6.5% or 5% and you're talking about a full community in effect that's easy to analyze. When you buy the kind of parks we buy, which is a 200-space park with only 110, 115 units occupied, we do buy them on a cap rate, but we have additional benefits that we are anticipating and that is that we will buy rental units and put them into the vacant sites and increase our operating income from those parks.

But it's evident in all areas of real estate trusts, cap rates are going down and I see that the Presidents and Chairman of the Board are free to taking a close look at that because cap rates are at historic lows, which means the value of your properties are at historic highs. I hope I answered your question.

Craig Kucera - *Wunderlich Securities - Anlayst*

I guess what I'm going for is it seems like what you've generally been buying in the last couple of years has been right around a 7% cap, but that's been with maybe 30% vacancy, so significant upside as you mentioned by putting in rental units. And I guess just given your capacity to extract more value from the rental program, does it make sense if cap rates were dropping given the drop in your cost of capital, does it make sense to even dip down in the 6%s or are you guys pretty much wanting to buy at 7%s because you think that's a better return long term with the upside from rentals?

Eugene Landy - *UMH Properties, Inc. - Chairman*

No, we have -- in our model, we have a good margin, even if cap rates go down to 6%. If you look at the 30%, 40% of the park being empty and figure that you can put $10 million worth of rentals in, and earn 15% on the new rentals, we can still average out a very good return, plus Anna does a wonderful job, as I say on every call. The mortgages we get are excellent mortgages. They are sub-4%. Maybe they are 4%, 3.75%. They are really good mortgages, so we do have a good spread between not only the cap rate we buy at, but the cap rate we hope to return and so we hope to continue to improve our margins and increase value for our shareholders.

Craig Kucera - *Wunderlich Securities - Anlayst*

Okay, one last one from me. When I look at the same-store pool, you've added maybe 770 rental units over the last year. They seem to be occupied as soon as you put them in the ground, which you've spoken to at length. And I think they are about 28% of your overall occupied units. Is there any -- I know some lenders can covenant a maximum amount of rentals in the community, but, from a percentage perspective, is there a ceiling to the amount of rentals you could have, or could you potentially continue adding as many rental units as you would like until your occupancy is where you would like it to be?

Samuel Landy - *UMH Properties, Inc. - President & CEO*

Freddie Mac has studied our communities, studied the turnarounds we've done, and they are willing to give us waivers against prior standards so we can continue to add rental units. We are in discussions about doing the first rental-only community at Memphis Mobile City. I think as time goes by, people are going to recognize that UMH Properties is in the housing business, and our housing is either communities where the resident owns their home and rents the site, or it can just as well be communities where they rent the house and the land.

The tenant retention, the quality of the tenant, it is all very high quality. It's a very high-quality income stream. I can't find a difference between renters and owners, especially if you are talking about used and older homes. Renters have equal income, same jobs. It's just a very high-quality revenue stream and I think more and more people are going to accept rental units and accept 100% rental communities.

Craig Kucera - *Wunderlich Securities - Anlayst*

Okay. Great. Thank you.

Operator

Jonathan Feldman, Clear Vista Asset Management.

Jonathan Feldman - *Clear Vista Management - Analyst*

Just had a question on the petrochemical project that you mentioned earlier in the call. When do you expect that to come online and see the impacts on your communities?

Eugene Landy - *UMH Properties, Inc. - Chairman*

That's a Shell project. It's been in the works for years. They have committed to the project. There have been various estimates as to the total amount invested, the employment, but the project itself is just the beginning of petrochemical development in the Western Pennsylvania area.

First, you drill and get the natural gas and now they are going to convert it to ethylene and then they make plastics and then there's going to be industries that come in to use the plastics and new products and so we think the growth of Western Pennsylvania, Eastern Ohio is going to be above average and that's going to help all our communities there.

To answer your question precisely, I think it's going to take three years to build this project. And then after that though, there will be other manufacturing facilities coming into the area to use the product from the refinery.

Jonathan Feldman - *Clear Vista Management - Analyst*

Got it. Thank you. Another question is to what extent do you see an opportunity to raise rents in your existing communities? Have you discerned any change in terms of what you think that opportunity might be on a going-forward basis given the housing, lack of affordable housing that you talked about earlier in the call?

Samuel Landy - *UMH Properties, Inc. - President & CEO*

Well, our plan is to just continue to raise rents 4% or CPI, whichever is greater and currently 4% is greater. When you have a 98% occupied community, you have opportunities to make additional money brokering home sales, selling brand-new homes, so I don't believe in raising rents more than that because you need the industry to have a good image. You need the people who bought houses from you to be happy with it over the long period of time and I think we should try to avoid excessive rent increases as much as possible.

Eugene Landy - *UMH Properties, Inc. - Chairman*

The reduction in gasoline prices, the reduction in the cost of heating, our tenants are going ahead even after a 4% rent increase. So the economics of the people who live in our parks is improving, not tremendously, but they certainly can sustain the $20 or $30 a month increase in rents.

Jonathan Feldman - *Clear Vista Management - Analyst*

My last question is just around the home sale increase that you mentioned earlier in the call. Can you just speak to a little bit what's driving that? And I think you had mentioned at NAREIT a change in who you are working with to help residents buy homes. Can you just speak to those?

Samuel Landy - *UMH Properties, Inc. - President & CEO*

Sure, sure. Let me back up a second first and tell you when UMH was less than half the size it currently is, 2005, 2006, 2007, each year, we did over $10 million in sales. It was the change in the finance laws and the recession that stopped sales and brought them down to $5.5 million in 2009. They were slowly building up again, but the new regulations pertaining to financing, at times, the new regulations confuse everything and stop everything dead.

We went to a new lender and we fund the loan, but they approve the loan and this is through Triad out of Florida. That's helped dramatically, but not only has that helped, we are seeing more cash buyers. We are seeing more buyers in all ranges, whether they are getting outside financing from another source besides through us using Triad or paying cash. Just the residents, the homebuyers have stronger income, stronger down payment. The economy for them is getting better and we are reaping the benefits. As good as our sales are, we still don't think they are good. We did $15.8 million in 2006 and I see no reason we can't double that. And I won't say our sales are good until we do.

Eugene Landy - *UMH Properties, Inc. - Chairman*

I will add to that. In 1955, which is a long time ago, the industry sold 250,000 homes. Prior to this recession, we were selling 350,000 homes. Today, we are only selling 70,000, 80,000 homes. Car sales dropped off with the recession. They've come back and doubled. Recreational vehicles dropped off during the recession; they are up 140%. We are not even back to where we were and there are various reasons for that, including the point that Sam made is that the financing regulations make no sense.

Read today's Wall Street Journal; they have the statistics on what people really pay for rent and they really pay -- 40% of the people pay more than 35% of their income for rent, yet we have to live with regulations that same if our cost of financing is more than 35%, we can't make the loan. So that's the reason the industry has switched over from a sales mode to a rental mode. Hopefully at some point there will be a change in that the sales will come back.

Sales will also come back because people are building up their net worth. Home values dropped off dramatically with the recession. They've been coming back every year at 4%, 5% and you are talking about hundreds of billions of dollars building up, and when the value of their existing home goes up enough, they sell their home and they use the proceeds to buy a manufactured home free and clear. So we see a lot of reasons why it's going to come back. In the meantime, Sam followed Sun into this rental program, and the rental program is working very well.

Jonathan Feldman - *Clear Vista Management - Analyst*

The program seems to be working well and yet there seems to be some stigma in the marketplace around rentals and in particular that residents don't take care of the home in the same way that they would as a homeowner. What's been your experience thus far?

Samuel Landy - *UMH Properties, Inc. - President & CEO*

Good. I really like that question. In all housing, right, whether it's standard you own the home, you own the land, there's $1 million houses and then you could be in a neighborhood where nobody is taking care of the houses and they are junk. In manufactured home communities, it's the same thing. If we are a good operator and we are enforcing the rules and regulations then the people have to take care of the rental units or we are not going to let them stay there.

And by doing this, the quality of our rental units, if you are driving through the community, you can't tell the difference between a resident-owned home or a rental. If you physically inspect the homes, you can't tell the difference. We inspect each home every year, so by being good operators, our rental units are high-quality rental housing. These are brand new homes, 1,000 square foot, three bedroom, two bath houses. The price is only $700, $750 per month, but the resident recognizes there are $200 to $300 per-month savings, that's their equity in the house.

They know if they can't live here, they've got to go somewhere else that's not as good for more money. So if we say here's our rules and regulations, you have to comply, most people are going to comply. And that's our experience both on payment of rent and maintenance of the facilities. Some of these people landscape the exteriors with their own money. They may have masonry skills and do fantastic beautiful work outside the house. They do amazing things with these rental units. So I'm extremely happy with the way the rentals are going. We inspect them. They are doing fine.

Eugene Landy - *UMH Properties, Inc. - Chairman*

I will add one thing. Brett Taft, our Vice President, bought a drone. He's been going around to our 98 parks -- it's quite an undertaking. We are creating movies of each of the parks. If you are worried about the quality of the parks -- and we worry about it too, but we watch it -- go on our website and take a look at the parks and see what the park looks like and I'm sure that will alleviate some of your fears. And believe me, management will continue to look at the updated views of the parks each year and we follow it closely and make sure that the quality of the park not only stays the same, but each year we are going to improve the quality of the park. So I do suggest you go -- how many people have looked at the videos already, Brett?

Brett Taft - *UMH Properties, Inc. - VP, Acquisitions*

About 130.

Eugene Landy - *UMH Properties, Inc. - Chairman*

130 people have come on our website already and taken the time to look at our communities. About how long does it take to go look at 98 parks?

Brett Taft - *UMH Properties, Inc. - VP, Acquisitions*

All year. It's a process.

Eugene Landy - *UMH Properties, Inc. - Chairman*

No, I mean if they go on the --.

Brett Taft - *UMH Properties, Inc. - VP, Acquisitions*

10 minutes.

Eugene Landy - *UMH Properties, Inc. - Chairman*

Make it a half hour, but you are welcome to come on our website and see what our parks look like.

Jonathan Feldman - *Clear Vista Management - Analyst*

Thank you for your time this morning.

Operator

Rick Murray, Midwest Advisors.

Rick Murray - *Midwest Advisors - Analyst*

Can you tell us what the depreciation related to the rental homes was in the quarter and also what was the maintenance CapEx number for the quarter?

Anna Chew - *UMH Properties, Inc. - VP & CFO*

I don't have the numbers right in front of me, but I can get back to you on that. But again as we talk about depreciation, a lot of it depends on really the quality of the home. We have brand-new homes. They are really not depreciating even though we depreciate it over 30 years. They are really not depreciating because if you have a $40,000 home and people are taking care of it, it really does not go down.

Samuel Landy - *UMH Properties, Inc. - President & CEO*

The important point is we install the home at our cost for $40,000. If you were putting it in somebody else's community or selling it, it would be in the high $70,000s and this high $70,000 house is going to last for 40 years. And during the time that this house was worth $70,000, it's going to stay in that ballpark for 15 years and then it's going to start to depreciate depending on the market. Sometimes homes go up in value, sometimes homes go down in value.

The homes that my father sold in Southwind Village for $10,000 in 1973 are still selling for $10,000 today. The houses have repair and maintenance, but again it's very minor because they are factory built. We can replace the wall boards, anything in the kitchens. It's a vinyl-sided, shingle roof house. Shingle roof is 25-year roof. The vinyl siding is going to last a very long time. So there really are not -- the home is not going down in value for any reason related to aging.

Eugene Landy - *UMH Properties, Inc. - Chairman*

Down or up a $40,000 home on a $40,000 lot, 1000 square feet of new house renting for $800 a month has a value considerably higher than $80,000 a year, but we will watch carefully over the years to see that the value of these homes -- that they do maintain their values and I'm sure we will look at that issue continually. But the value of our parks have been going up very substantially over the last two to three years.

Samuel Landy - *UMH Properties, Inc. - President & CEO*

I would add to that that during the half-year we've sold 36 rental units and we are selling the rental units for more than they are on the books for. There's no loss on any rental unit.

Rick Murray - *Midwest Advisors - Analyst*

Okay. Thank you. And so I think the number you gave a couple of quarters ago was around $19 million or $20 million for 2015, so should we expect that call it $5 million a quarter for CapEx is about the right number?

Samuel Landy - *UMH Properties, Inc. - President & CEO*

We never gave a number like that. The highest number that I remember ever giving for CapEx was $16 million, and that's a very special CapEx for this year, 2016, related to very special expenditures bringing new communities that were acquired up to our standards. Some require full replacement of water lines. Some require full repaving, rebuilding clubhouse. Our normal CapEx -- and I'm doing it off of memory, but I'm going to be pretty close -- when we were half our size was --.

Anna Chew - *UMH Properties, Inc. - VP & CFO*

$3 million.

Samuel Landy - *UMH Properties, Inc. - President & CEO*

So we assume our normal CapEx is in the range of $6 million to $7 million -- $6 million to $8 million.

Anna Chew - *UMH Properties, Inc. - VP & CFO*

$8 million is normal.

Samuel Landy - *UMH Properties, Inc. - President & CEO*

$6 million to $8 million, but this is a very special year because we are taking communities we acquired, making them new and improved. The drone videos prove this out, so I'm going to back up a second. What UMH has done is phenomenal in every way. The capital structure, just 27 million shares for approximately $800 million in assets. The addition of rental units and the choice to take existing communities that had aged, that had deferred maintenance and deferred capital improvements and upgrading them into brand-new status and making them better than they were originally built, and that's where that $16 million in special capital expenditures comes in this year.

Eugene Landy - *UMH Properties, Inc. - Chairman*

Sometimes you fix the water lines for $1 million and reduce your sewage costs by $120,000. That's not the type of CapEx that you are just spending money to keep where you are. You actually are going to improve your earnings.

Rick Murray - *Midwest Advisors - Analyst*

Okay. I thought Anna had given a figure of $19 million for 2015 on one of the prior calls, but I can follow up.

Samuel Landy - *UMH Properties, Inc. - President & CEO*

It never has. The highest number we ever gave was $16 million and we are not even sure we are going to be that high.

Eugene Landy - *UMH Properties, Inc. - Chairman*

And that includes a lot of special projects. You buy 1,000 units for $28 million; you can anticipate you may spend $3 million, $4 million, $5 million, $6 million getting those parks up to our standards. And you can call that CapEx, or you can call it whatever you want to call it. As far as we are concerned, it's the cost of getting in place 1,000 units that are worth $60 million. Any other questions?

Operator

Brian Hollenden, Sidoti.

Brian Hollenden - *Sidoti & Co. - Analyst*

The lack of acquisitions year-to-date has highlighted the underlying profitability of the business. Do you expect less community acquisitions moving forward as you focus on your rental program?

Eugene Landy - *UMH Properties, Inc. - Chairman*

We just don't know. We have excellent relations with some large holders of parks who are repositioning and they are still trying to make a decision whether they are going to sell off some of the parks that are in our area and not the type of parks that they generally own, but they haven't made a decision and that would be a very substantial amount of acquisitions.

The other way we do acquisitions on a one-off basis dealing with individual park owners who have owned the parks for 10, 20, 30 years and it's like pulling teeth to buy the parks. And in fact, more and more people don't want to sell at any price. So it is much harder to get parks than it was, but we do have an active acquisition program and we will be announcing acquisitions over the next two quarters.

Samuel Landy - *UMH Properties, Inc. - President & CEO*

And I will point out that we have 1,000 sites in the approval phase and we are doing construction of various sites right now. We are at the point again where it's less expensive to build them than to buy them because you are going to earn the sales profit when you build them. So we are building sites again and we are actively working on the approval process every day.

Brian Hollenden - *Sidoti & Co. - Analyst*

Thanks. Then I have a follow-up to earlier questions. With the strong pickup in the sale of manufactured homes, do you see that momentum continuing in the third quarter and then seasonally falling in the fourth quarter? And is better access to financing driving the pickup or has there been an increase in overall demand?

Samuel Landy - *UMH Properties, Inc. - President & CEO*

Increase in overall demand caused by I believe rising incomes and people having the down payment. It's hard to say that there is a fourth-quarter slowdown because it varies so much, but we don't see any slowdown coming. We see sales growing. We see plenty of room for increased sales going through the whole year. Interestingly, I know that December and January can be our best sales months. January because of the tax refund. So you would think winter slows things down on sales, but it varies from year to year.

Brian Hollenden - *Sidoti & Co. - Analyst*

Okay. Thank you. And then just one final question, if I can. You touched on it earlier, but there's a big improvement in the operating expense ratio. How much more room is there to push that number lower, let's say, over the next 12 months?

Samuel Landy - *UMH Properties, Inc. - President & CEO*

Well, I think 36% is a really great number for the new revenue and that's what the new revenue is coming in at, at a 36% expense ratio. And so my estimate is we are going to add 800 rental units over 12 months bringing in $6.4 million of new rental income. We are going to have the rent increases generating $3 million in new rental income. So you are going to have $9.4 million with 36% expenses against it on the operating side. So that brings an awful lot of new revenue to net income.

It's always a question will we actually get the 800 rental units in? Will we actually get them rented? But we are doing it and I have to thank every member of the UMH staff. I have to thank the factories, the setup crews. Adding 800 new rental homes a year is an incredible achievement and we continue to do it.

Eugene Landy - *UMH Properties, Inc. - Chairman*

I have to make a comment that I laugh about; I hope people see the humor in it. Some of our critics note that at least one, maybe two of our peers have outperformed us. You should realize that manufactured housing REITs are the best performing REITs in the country, so that if you say that one of our competitors outperformed us, you are really saying that UMH is not the number one REIT in the country. So when I tell you that one of our REITs is operating at a 40% factor and we are operating at a higher factor, it troubles us greatly. We really want to match what the other REIT is doing, but we also realize that if we could perform as well as that REIT, we'd be the number one REIT in the United States.

Brian Hollenden - *Sidoti & Co. - Analyst*

Thanks for taking my questions.

Operator

Michael Boulegeris, Boulegeris Investments.

Michael Boulegeris - *Boulegeris Investments - Analyst*

Good morning and thank you for taking my questions and congratulations on the organic growth that you are demonstrating. Sam, might you just update us as to the progress in Tennessee and the growth pathway there in Memphis Blues and some of the other developments that you've referred to in the past?

Samuel Landy - *UMH Properties, Inc. - President & CEO*

Sure. Memphis Blues we are hoping for the grand opening in September and that will be an all-rental community. Everybody down there is incredibly excited about it because they see the demand. We are going to start out with 50 lots and 50 brand-new rental units. That's about a 10-minute drive from downtown Memphis. The whole Nashville area has been phenomenal for UMH. We've taken communities with 56% occupancy and got them to 100% occupancy. We've done this in Lebanon, Tennessee.

The job we've done in North Nashville -- I've had people come from New York, I've had people look and it's amazing the way we've turned around these properties -- took old communities, removed homes, put new water lines, repaved streets, add new houses. In our investor presentation, which is online, we document the income we've added to these communities and the value we've added to these communities and we have vacant land -- one of the communities, Countryside Estates, south of Nashville, is 380 sites and we have land to expand another 380 sites. So 760 sites next to what was the Springhill auto factory that's reopening as an auto factory again.

We have room to expand in North Nashville where we are working on the approvals now and again they are places we've achieved high 90% occupancy and now can expand. So Tennessee in all ways has been fantastic to us. Allentown in the Memphis area remains high occupancy with sales, so we are very optimistic about that area.

Michael Boulegeris - *Boulegeris Investments - Analyst*

I don't know if you could tell us, you mentioned Freddie Mac, like for example with Memphis Blues, are they being helpful to UMH?

Samuel Landy - *UMH Properties, Inc. - President & CEO*

Freddie Mac is incredibly helpful to UMH in everything we do. I will let Anna tell you more about that.

Anna Chew - *UMH Properties, Inc. - VP & CFO*

We've been talking to Freddie Mac. They do not have a program yet for the rental homes combined with the community itself. However, they've indicated to us that they will consider it and they are looking into it as we speak. So we are very happy with Freddie Mac and the execution that we've been able to do with them. We've done 22, 23 loans, individual loans with them for probably about $150 million over the last year and this year.

Michael Boulegeris - *Boulegeris Investments - Analyst*

Outstanding.

Eugene Landy - *UMH Properties, Inc. - Chairman*

We are able in the Memphis area to produce housing, 1,000 square feet, three bedrooms, two bath for approximately $100,000, $110,000 a unit and there's nobody in the country that can do that well. And Freddie Mac is well aware of their mission to provide affordable housing, workforce housing, and they see that we can do it and so we are hopeful they come along with a program that we can get financing on both the park and on the homes.

In the meantime, the existing Freddie Mac programs are working wonderfully for the Company and so if we can't put a mortgage on Memphis Blues for the money, we will put a mortgage on another park and raise the money for that venture.

Michael Boulegeris - *Boulegeris Investments - Analyst*

Thank you for that color, Gene and Anna. Sam, same property occupancy has increased year-over-year I guess to 84.2% and the rental home property occupancy is now at 94.4%. Do you think by fiscal year-end we can see maybe same property occupancy north of 86% and rental home in the 96% range as well?

Samuel Landy - *UMH Properties, Inc. - President & CEO*

The rental homes, what affects the vacancy factor on the rental homes is we count them as a unit from the time they are set up, so they actually -- whatever number we show as the occupancy, it's actually, in my opinion, higher. The problem is the new homes that are set up -- we have to wait for the new resident and that's what creates the vacancy. So it's hard for me to get that number, but the -- we are going to add 800 rental units and historically what's happened the last five or six years as we are upgrading the communities is you are losing about 400 homes out of the communities because we are removing them.

That is going to slow down. The removal of houses is going to slow down because we've completed that. In a number of communities, we've already removed everything that needs to be removed and there's nothing left to remove. So the obsolescence number I always gave of 2% is going to start to decline and as we add 800 rental units, instead of only going forward 400 units total, I think we are going to get closer to 600 units total.

So that's going the right direction and everything we see out there -- it's been a number of years, more than seven, since people bought homes from dealers and moved them into our communities. We are not seeing a lot of it, but we are seeing a handful of it. That's happening again. The rental units are doing well for us and we have home sales. So on the occupancy front, everything is going in the right direction. There's going to be less obsolescence, more outside dealers bringing houses in, us doing more sales and us doing more rentals. So it will continue to grow.

Michael Boulegeris - *Boulegeris Investments - Analyst*

So same property occupancy, 86% no guarantees, but that's not too much of a stretch is it?

Samuel Landy - *UMH Properties, Inc. - President & CEO*

No. It appears -- Anna is checking the numbers and it appears likely, yes.

Michael Boulegeris - *Boulegeris Investments - Analyst*

Okay. Lastly, Sam, for you or for Gene, you've had such a long-standing presence, obviously in the MH industry and in Western PA. Shell's $6 billion commitment in Beaver County is -- would you say that that is truly transformative and perhaps the most significant commitment in that region that you've seen in quite some time?

Eugene Landy - *UMH Properties, Inc. - Chairman*

Absolutely. We commented on another state that runs all these ads about all the business they bring in and it isn't 10% of $6 billion. $6 billion is a lot of money. I believe they are estimating 6,000 people working on this for three years. But as I pointed out, even as big as the $6 billion dollar project -- and Sam has been pointing out there's another $6 billion in pipelines being built -- but even as big as that is and as important as that is, the petrochemical industry is expanding in Western Pennsylvania and I forget whether you call it upstream or downstream when you have these other plants that use the product in manufacturing, but that's going to come into place to and my prediction for Western Pennsylvania and for Eastern Ohio is excellent.

And again, what are we talking about? We have a Company here with 18,000 sites and 3,000 vacancies. That's just a drop in the bucket. So we should be running 96% occupancy the way our competitors are and we are looking forward to that increased occupancy because we've bought the parks where the growth is coming. Even if we had an average national growth, we would do well over the next five, six years, but we are going to do above average because we pick sites like Memphis and Western Pennsylvania in the Marcellus and Utica shale that are going to have above average growth. So I'm very optimistic about that.

And in addition, I want to point out, no one asked the question about the securities portfolio. The securities portfolio is doing as projected and even with all the gains we have, we still have an excellent portfolio that we expect further gains in. But the size of the gains is so large that I didn't get a question about covering the dividend this time and I understand why because the dividend is covered. It's covered by our unrealized gains and the cash we have in the bank and the $0.18 dividend. $0.72 a year is a solid dividend. On previous calls, people were concerned that the FFO didn't cover the dividends, but the dividend is now covered.

Anna Chew - *UMH Properties, Inc. - VP & CFO*

I just wanted to add, this quarter, the core FFO did cover the dividend. It was $0.18 and our dividend is $0.18 for the quarter.

Michael Boulegeris - *Boulegeris Investments - Analyst*

Congratulations. That's been a tough haul in the last couple of years, but you've persevered and congratulations and thank you for taking my questions.

Operator

This concludes our question and answer session. I would like to turn the conference back over to Samuel Landy for any closing remarks.

Samuel Landy - *UMH Properties, Inc. - President & CEO*

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

The conference has now concluded. Thank you for attending today's presentation. The teleconference replay will be available in approximately one hour. To access this replay, please dial US toll-free 1-877-344-7529 or international 1-412-317-0088. The conference ID number is 10087367. Thank you and please disconnect your lines at this time.