

# Second-Party Opinion

## UMH Properties Inc. Sustainable Bond Framework



### Evaluation Summary

Sustainalytics is of the opinion that the UMH Properties Inc. Sustainable Bond Framework is credible and impactful and aligns with the Sustainability Bond Guidelines 2021, Green Bond Principles 2021, and Social Bond Principles 2021. This assessment is based on the following:



**USE OF PROCEEDS** The eligible categories for the use of proceeds – Affordable Housing, Access to Essential Services, Sustainable Water and Wastewater Management, and Energy Efficiency – are aligned with those recognized by the Green Bond Principles and the Social Bond Principles. Sustainalytics considers that investments in the eligible categories are expected to lead to positive environmental and social impacts and advance the UN Sustainable Development Goals, specifically SDGs 6, 7, 8 and 11.



**PROJECT EVALUATION / SELECTION** UMH Properties Inc.'s Sustainability Bond Committee, comprising of its Director of ESG and an independent board member, along with its legal and management teams, will oversee the identification and selection of the eligible projects. While UMH Properties Inc. has adopted internal processes to comply with the regional environmental and social regulations, it lacks adequate systems and processes to manage some of the identified risks, which is a deviation from market expectations.



**MANAGEMENT OF PROCEEDS** UMH Properties Inc.'s Sustainability Bond Committee will be responsible for the management and tracking of bond proceeds. UMH intends to achieve full allocation of bond proceeds within 36 months of each issuance. Unallocated proceeds may be temporarily used to refinance existing debt and preferred stocks or invested per UMH Properties Inc.'s cash investment policy. This is in line with market practice.



**REPORTING** UMH intends to report on the allocation of proceeds until full allocation as part of its annual ESG reports published on its website. The allocation reporting will include details on the allocation of proceeds, and the balance of unallocated proceeds. In addition, UMH Properties Inc. intends to report on qualitative and quantitative impacts and has provided indicative metrics in the Framework. Sustainalytics views UMH's allocation and impact reporting as aligned with market practice.

<b>Evaluation date</b>	March 1, 2022
<b>Issuer Location</b>	Freehold, NJ USA

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## Introduction

UMH Properties Inc. (“UMH” or the “Company”) is a US-based real estate investment trust headquartered in Freehold, New Jersey, USA. The Company owns and operates 127 manufactured home communities with approximately 24,000 developed homesites located across 10 states in the US. As of 31 December 2020, UMH reported over USD 163 million in revenue and a workforce of 440 employees. UMH Sales and Finance, Inc. (“S&F”) is a wholly owned subsidiary of UMH.<sup>1</sup>

UMH has developed the UMH Properties Inc. Sustainable Bond Framework (the “Framework”) under which it intends to issue sustainability bonds and use the proceeds to finance and refinance, in whole or in part, existing and future projects that will improve access to affordable housing and contribute to safe and clean drinking water and energy efficiencies thereof. The Framework defines eligibility criteria in four areas:

1. Affordable Housing
2. Access to Essential Services
3. Sustainable Water and Wastewater Management
4. Energy Efficiency

UMH engaged Sustainalytics to review the Framework, dated January 2022, and provide a Second-Party Opinion on the Framework’s environmental and social credentials and its alignment with the Sustainability Bond Guidelines 2021 (SBG), Green Bond Principles 2021 (GBP), and Social Bond Principles 2021 (SBP).<sup>2</sup> The Framework has been published in a separate document.<sup>3</sup>

### Scope of work and limitations of Sustainalytics’ Second-Party Opinion

Sustainalytics’ Second-Party Opinion reflects Sustainalytics’ independent<sup>4</sup> opinion on the alignment of the reviewed Framework with the current market standards and the extent to which the eligible project categories are credible and impactful.

As part of the Second-Party Opinion, Sustainalytics assessed the following:

- The Framework’s alignment with the Sustainability Bond Guidelines 2021, Green Bond Principles 2021, and Social Bond Principles 2021, as administered by ICMA;
- The credibility and anticipated positive impacts of the use of proceeds; and
- The alignment of the issuer’s sustainability strategy and performance and sustainability risk management in relation to the use of proceeds.

For the use of proceeds assessment, Sustainalytics relied on its internal taxonomy, version 1.11, which is informed by market practice and Sustainalytics’ expertise as an ESG research provider.

As part of this engagement, Sustainalytics held conversations with various members of UMH’s management team to understand the sustainability impact of their business processes and planned use of proceeds, as well as management of proceeds and reporting aspects of the Framework. UMH representatives have confirmed (1) they understand it is the sole responsibility of UMH to ensure that the information provided is complete, accurate or up to date; (2) that they have provided Sustainalytics with all relevant information and (3) that any provided material information has been duly disclosed in a timely manner. Sustainalytics also reviewed relevant public documents and non-public information.

This document contains Sustainalytics’ opinion of the Framework and should be read in conjunction with that Framework.

Any update of the present Second-Party Opinion will be conducted according to the agreed engagement conditions between Sustainalytics and UMH.

Sustainalytics’ Second-Party Opinion, while reflecting on the alignment of the Framework with market standards, is no guarantee of alignment nor warrants any alignment with future versions of relevant market

<sup>1</sup> UMH Properties Inc. “2020 Annual Report”, at: [https://s26.q4cdn.com/781307269/files/doc\\_financials/2020/ar/UMH\\_2020\\_Ann\\_Rpt\\_for\\_web-rev6.pdf](https://s26.q4cdn.com/781307269/files/doc_financials/2020/ar/UMH_2020_Ann_Rpt_for_web-rev6.pdf)

<sup>2</sup> The Sustainability Bond Guidelines, Green Bond Principles, and Social Bond Principles are administered by the International Capital Market Association and are available at <https://www.icmagroup.org/green-social-and-sustainability-bonds/sustainability-bond-guidelines-sbg/>

<sup>3</sup> The UMH Properties Inc. Sustainable Bond Framework is available on UMH Properties Inc.’s website at: [www.UMH.reit](http://www.UMH.reit)

<sup>4</sup> When operating multiple lines of business that serve a variety of client types, objective research is a cornerstone of Sustainalytics and ensuring analyst independence is paramount to producing objective, actionable research. Sustainalytics has therefore put in place a robust conflict management framework that specifically addresses the need for analyst independence, consistency of process, structural separation of commercial and research (and engagement) teams, data protection and systems separation. Last but not the least, analyst compensation is not directly tied to specific commercial outcomes. One of Sustainalytics’ hallmarks is integrity, another is transparency.

standards. Furthermore, Sustainalytics' Second-Party Opinion addresses the anticipated impacts of eligible projects expected to be financed with bond proceeds but does not measure the actual impact. The measurement and reporting of the impact achieved through projects financed under the Framework is the responsibility of the Framework owner. The Second-Party Opinion is valid for issuances aligned with the respective Framework for which the Second-Party Opinion was written for a period of twenty-four (24) months from the evaluation date stated herein.

In addition, the Second-Party Opinion opines on the potential allocation of proceeds but does not guarantee the realized allocation of the bond proceeds towards eligible activities.

No information provided by Sustainalytics under the present Second-Party Opinion shall be considered as being a statement, representation, warrant or argument, either in favour or against, the truthfulness, reliability or completeness of any facts or statements and related surrounding circumstances that UMH has made available to Sustainalytics for the purpose of this Second-Party Opinion.

## Sustainalytics' Opinion

### Section 1: Sustainalytics' Opinion on the UMH Properties Inc. Sustainable Bond Framework

Sustainalytics is of the opinion that the Framework is credible, impactful and aligns with the four core components of the GBP and the SBP. Sustainalytics highlights the following elements of the Framework:

- Use of Proceeds:
  - The eligible categories – Affordable Housing, Access to Essential Services, Sustainable Water and Wastewater Management and Energy Efficiency – are aligned with those recognized by the GBP and the SBP.
  - UMH has established a two-year look-back period for its refinancing activities, which Sustainalytics considers to be in line with market practice.
  - Under the Affordable Housing category, UMH intends to finance the development and purchase of manufactured housing communities<sup>5</sup> that are designed to be accessible and affordable to the target population.
    - The Framework defines the target population as those that earn 50% to 80% of their area median income (the "Low-Income Population"), in accordance with the US Department of Housing and Urban Development's (HUD) methodology.<sup>6,7</sup>
    - The Company has communicated that at least 97% of its current portfolio of community housing is affordable to the Low-Income Population with rents below 30% of the monthly household income.<sup>8</sup> Sustainalytics, however, notes that the Framework allows the Company to increase rents beyond this limit and, as such, does not guarantee affordability for the target population throughout the bond term.
    - Market expectation is that 100% of the housing communities financed under a sustainability bond remain affordable until the maturity of the bond and therefore, Sustainalytics views this as a limitation to the Framework and encourages UMH to annually report on the affordability of rents in all financed communities throughout the tenure of the bond.

<sup>5</sup> UMH, "What is a manufactured home?", at: <https://www.umh.com/about-umh/>

<sup>6</sup> US Department of Housing and Urban Development, "Methodology for Calculating FY 2021 Medians", at: <https://www.huduser.gov/portal/datasets/il/il21/Medians-Methodology-FY21.pdf>

<sup>7</sup> The US Department of Housing and Urban Development (HUD) defines eligibility for assisted housing programmes according to family income under the US Housing Act of 1937. According to the HUD definition, low-income families consist of families of one or more persons whose combined earnings do not exceed 80% of the AMI. <https://www.huduser.gov/portal/datasets/il/il21/Medians-Methodology-FY21.pdf>

<sup>8</sup> Based on the portfolio details shared by UMH in January 2022, which include community-level annualized rents for its current portfolio of housing communities along with applicable AMI statistics.

- Under the Access to Essential Services category, the Framework allows S&F, its wholly owned subsidiary,<sup>9</sup> to finance its low-interest-rate chattel loans programme (at 5.99%),<sup>10</sup> through which it enables the Low-Income Population in the US to finance and refinance loans on the manufactured homes in UMH's communities.<sup>11</sup> While UMH has confirmed that S&F does not engage in predatory lending to its residents on chattel loans, Sustainalytics notes that it does not have a formal lending policy that informs its lending terms. However, given that the Framework defines a specific threshold for interest rates on chattel loans and that S&F does not offer any other lending products, Sustainalytics views this mechanism to be sufficient for addressing the said risk and considers the criteria for financing such activities to be aligned with market practice.
- Under the Sustainable Water and Wastewater Management category, UMH intends to finance the purchase and installation of water conservation and water treatment upgrades for its housing communities, including submeters, water filters<sup>12</sup> and water recycling systems. Sustainalytics considers the criteria for financing water management systems to be aligned with market expectations.
- Under the Energy Efficiency category, UMH intends to finance energy efficiency and renewable energy upgrades including LED lights, upgraded smart thermostats, and solar panels for its self-managed properties. Sustainalytics recognizes the Company's intent to invest in upgrades that are not driven by fossil fuels and considers the criteria to be aligned with market practice.
- Project Evaluation and Selection:
  - UMH's Sustainability Bond Committee (or a subcommittee thereof), comprising of the Company's Director of ESG and an independent board member, along with its legal and management teams, will oversee the identification and selection of eligible projects per the criteria defined in the Framework.
  - UMH has adopted internal processes to comply with the regional environmental and social regulations at all its housing communities. The Company, however, lacks adequate systems and processes to assess and mitigate some of the identified environmental and social risks, including those related to land use and biodiversity issues, which is a deviation from market expectation. For additional detail, see Section 2.
- Management of Proceeds:
  - UMH's Sustainability Bond Committee will be responsible for the management and tracking of bond proceeds. The Company will additionally appoint an external auditor to verify the proceed allocation process on an annual basis.
  - The Company intends to achieve full allocation of proceeds within 36 months from the day of each issuance.
  - The unallocated proceeds will be temporarily used to refinance existing debt and preferred stocks or be invested per the Company's cash management policy. The Framework excludes the financing of emission-intense assets or activities.
  - Based on the management of bond proceeds and the disclosure on the temporary use of unallocated proceeds, Sustainalytics considers this process to be in line with market practice.
- Reporting:
  - UMH intends to report on the allocation and impact of bond proceeds on its website, as part of its annual ESG reporting until full allocation.
  - The allocation reporting will include both qualitative and quantitative details on the allocation of proceeds and the balance of unallocated funds.
  - The impact reporting will be based on category-level indicators, including: (i) number of affordable housing units and communities purchased or developed; (ii) number of financed and refinanced loans; and (iii) number of buildings retrofitted with smart thermostats and LED lights.

<sup>9</sup> Sustainalytics notes that Framework does not identify S&F as the issuer of the bonds.

<sup>10</sup> The Company has communicated that this interest rate is considered to be significantly lower than the median chattel loan rate for manufactured homes of ~8.6%. More information at Consumer Financial Protection Bureau, "Manufactured Housing Finance: New Insights from the Home Mortgage Disclosure Act Data" (2021), at: [https://files.consumerfinance.gov/f/documents/cfpb\\_manufactured-housing-finance-new-insights-hmda\\_report\\_2021-05.pdf](https://files.consumerfinance.gov/f/documents/cfpb_manufactured-housing-finance-new-insights-hmda_report_2021-05.pdf)

<sup>11</sup> UMH has confirmed that the chattel loans will only finance fully manufactured homes and will exclude financing of other activities including home manufacturing equipment and construction vehicles.

<sup>12</sup> UMH has communicated that water filtration projects may include the installation of hydro panels that collect and filter water from the air.

- Based on the commitment to both allocation and impact reporting, Sustainalytics considers this process to be aligned with market practice.

### Alignment with Sustainability Bond Guidelines 2021

Sustainalytics has determined that the UMH Properties Inc. Sustainable Bond Framework aligns with the four core components of the GBP and SBP. For detailed information, please refer to Appendix 1: Sustainability Bond/ Sustainability Bond Programme External Review Form.

## Section 2: Sustainability Performance of UMH

### Contribution of Framework to UMH Properties Inc.'s sustainability performance

Sustainalytics is of the opinion that UMH demonstrates a commitment to sustainability in its practices, driven by its mission to “address the fundamental need of providing affordable housing and in doing so, create sustainable and environmentally friendly communities that have a positive societal impact”.<sup>13</sup>

Sustainalytics highlights the following UMH initiatives, which are particularly aligned with the Framework:

- Affordable Housing – As of November 2021, the Company owned and operated 127 communities with over 24,000 manufactured home sites, whose average rent is considered affordable for a family with an annual income of USD 32,000, while median household income in the US for the year 2020 was USD 67,521.<sup>14,15</sup>
- Management of Water and Energy Efficiencies – UMH has set a goal to double its rate of energy efficiency by 2030 and increase the efficiency of water usage per home in its communities. Towards this, the Company has established environmental management systems for planning and tracking its initiatives and implementing water and energy savings measures. As of 31 December 2020, UMH had installed water sub-metering at 80 of its 127 communities, resulting in an 8.07% reduction in water use at those communities.<sup>16</sup> Further, UMH is also committed to the installation of smart thermostats and LED lighting retrofits in the common areas, clubhouses, and street lighting of its communities.<sup>17</sup>

Sustainalytics recognizes UMH's commitment to its ongoing social and environmental initiatives and encourages it to develop quantifiable and time-bound sustainability targets to further strengthen its sustainability practices.

### Approach to managing environmental and social risks associated with the projects

While Sustainalytics recognizes that the use of proceeds from the Framework will be directed towards eligible projects that are expected to have positive environmental and social impact, Sustainalytics is aware that such eligible projects could also lead to negative environmental and social outcomes. Some key environmental and social risks associated with the eligible projects could include occupational health and safety, waste generated in manufacturing, community relations and stakeholder participation, predatory lending, and land use and biodiversity issues associated with large-scale developments.

Sustainalytics is of the opinion that UMH is able to manage some of the potential risks through implementation of the following:

- UMH operates exclusively in the US, which is recognized as a “Designated Country” under the Equator Principles. This implies the presence of a robust environment, social and worker safety governance systems, as well as legislation and institutional capacity for protecting the environment and communities.<sup>18</sup> This includes adherence to the Occupational Health & Safety Act of 1970, which governs the working conditions of all factories and construction sites in the US. The Company has communicated that it relies on internal employee trainings to ensure compliance with this regulation.

<sup>13</sup> UMH Properties Inc. “2020 Annual Report” (p. 6), at: [https://s26.q4cdn.com/781307269/files/doc\\_financials/2020/ar/UMH\\_2020\\_Ann\\_Rpt\\_for\\_web\\_rev6.pdf](https://s26.q4cdn.com/781307269/files/doc_financials/2020/ar/UMH_2020_Ann_Rpt_for_web_rev6.pdf)

<sup>14</sup> US Census Bureau, “Who Can Afford to Live in a Home?: A look at data from the 2006 American Community Survey”, at: <https://cdn2.hubspot.net/hubfs/4408380/PDF/General-Housing-Homelessness/who-can-afford.pdf>

<sup>15</sup> US Census Bureau, “Income and Poverty in the United States: 2020”, at: <https://www.census.gov/library/publications/2021/demo/p60-273.html>

<sup>16</sup> UMH Properties Inc. “2021 Environmental, Social & Governance Report”, at: [https://s26.q4cdn.com/781307269/files/doc\\_downloads/2021/UMH-ESG-Report-2021-Web-Ready-PDF.pdf](https://s26.q4cdn.com/781307269/files/doc_downloads/2021/UMH-ESG-Report-2021-Web-Ready-PDF.pdf)

<sup>17</sup> UMH Properties Inc. “2020 Annual Report”, at: [https://s26.q4cdn.com/781307269/files/doc\\_financials/2020/ar/UMH\\_2020\\_Ann\\_Rpt\\_for\\_web\\_rev6.pdf](https://s26.q4cdn.com/781307269/files/doc_financials/2020/ar/UMH_2020_Ann_Rpt_for_web_rev6.pdf)

<sup>18</sup> The Equator Principles, “Designated Countries”, at: <https://equator-principles.com/designated-countries/>

- To manage the waste generated during the manufacturing process, UMH has confirmed that it complies with the Resource Conservation and Recovery Act governed by the EPA, which establishes laws and regulations for the storage and disposal of all hazardous and non-hazardous waste in the US.<sup>19,20</sup> Per the Company, the processes adopted by it at its manufactured-housing construction facilities result in reduced waste production compared to the waste generated during the construction of other forms of conventional housing.<sup>21</sup> The Company further encourages its vendors and suppliers to minimize their impact on the environment including pollutants, waste and hazardous materials, in line with its Vendor Code of Conduct.<sup>22,23</sup>
- To manage risks associated with community relations, the Company continually engages with its residents, and other stakeholders including local municipal office workers, lawmakers, businesses, religious groups, firefighters and police.
- As for the risks associated with predatory lending, Sustainalytics notes that the Company and S&F have not adopted a formal lending policy to address risks related to predatory lending. However, based on the assessment noted in Section 1, Sustainalytics considers the mechanism adopted by S&F to be sufficient for addressing any risks associated with predatory lending.
- All manufactured homes in UMH communities are constructed in accordance with the Federal Manufactured Homes Construction and Safety Standards, administered by the HUD. The standards regulate the overall quality of the structures, including strength, transportability, energy efficiency and fire resistance.<sup>24</sup>
- In addition, UMH's Corporate Code of Business Conduct and Ethics applies to every director, officer and employee of the Company, and serves to ensure compliance with all laws, rules and regulations, while upholding honest, ethical and accountable conduct.<sup>25</sup>

Based on the above, Sustainalytics views UMH as having insufficient measures in place to address the potential impact of some of the aforementioned risks, including those related to land use and biodiversity issues. Sustainalytics encourages the Company to develop formal policies that adequately address all environmental and social risks associated with the eligible projects.

### Section 3: Impact of Use of Proceeds

All four use of proceeds categories are aligned with those recognized by GBP or SBP. Sustainalytics focuses below on those whose impact is specifically relevant in the local context.

#### Importance of affordable housing in the US

According to the HUD, approximately 580,000 people in the US in 2020 were homeless, up for the fourth consecutive year.<sup>26</sup> The lack of affordable housing is a key contributor to homelessness, particularly for low-income renters who are often one financial shock away from homelessness.<sup>27</sup> Approximately 10.8 million renter households in the US have extremely low incomes while only 4 million affordable homes are available to them.<sup>28</sup> The shortage of affordable housing forces many low-income households to rent homes beyond their affordability, making them severely cost burdened.<sup>29</sup> According to the National Low Income Housing

<sup>19</sup> OHS Act of 1970, <https://www.osha.gov/laws-regs/oshact/completeoshact>

<sup>20</sup> Resource Conservation and Recovery Act, <https://www.epa.gov/rcra>

<sup>21</sup> UMH Properties Inc. "2021 Environmental, Social & Governance Report", at: [https://s26.q4cdn.com/781307269/files/doc\\_downloads/2021/UMH-ESG-Report-2021-Web-Ready-PDF.pdf](https://s26.q4cdn.com/781307269/files/doc_downloads/2021/UMH-ESG-Report-2021-Web-Ready-PDF.pdf)

<sup>22</sup> UMH Properties Inc. "2021 Environmental, Social & Governance Report", at: [https://s26.q4cdn.com/781307269/files/doc\\_downloads/2021/UMH-ESG-Report-2021-Web-Ready-PDF.pdf](https://s26.q4cdn.com/781307269/files/doc_downloads/2021/UMH-ESG-Report-2021-Web-Ready-PDF.pdf)

<sup>23</sup> UMH Properties Inc. "Vendor Code of Conduct" (December 2018), at: [https://s26.q4cdn.com/781307269/files/doc\\_downloads/gov\\_doc/VENDOR-CODE-OF-CONDUCT.pdf](https://s26.q4cdn.com/781307269/files/doc_downloads/gov_doc/VENDOR-CODE-OF-CONDUCT.pdf)

<sup>24</sup> UMH Properties Inc. "2021 Environmental, Social & Governance Report", at: [https://s26.q4cdn.com/781307269/files/doc\\_downloads/2021/UMH-ESG-Report-2021-Web-Ready-PDF.pdf](https://s26.q4cdn.com/781307269/files/doc_downloads/2021/UMH-ESG-Report-2021-Web-Ready-PDF.pdf)

<sup>25</sup> UMH Properties Inc. "Code of Business Conduct and Ethics", at: [https://s26.q4cdn.com/781307269/files/doc\\_downloads/gov\\_doc/611a898a-ff4e-c0a1-0653-e3de7faefc1f.pdf](https://s26.q4cdn.com/781307269/files/doc_downloads/gov_doc/611a898a-ff4e-c0a1-0653-e3de7faefc1f.pdf)

<sup>26</sup> US Department of Housing and Urban Development, "The 2020 Annual Homeless Assessment Report (AHAR) to Congress", (2021), at: <https://www.huduser.gov/portal/sites/default/files/pdf/2020-AHAR-Part-1.pdf>

<sup>27</sup> US Department of Housing and Urban Development, "Worst Case Housing Needs 2021 Report to Congress", (2021), at: <https://www.huduser.gov/PORTAL/sites/default/files/pdf/Worst-Case-Housing-Needs-2021.pdf>

<sup>28</sup> National Low Income Housing Coalition, "The Gap: A Shortage of Affordable Homes", (2021), at: [https://reports.nlihc.org/sites/default/files/gap/Gap-Report\\_2021.pdf](https://reports.nlihc.org/sites/default/files/gap/Gap-Report_2021.pdf)

<sup>29</sup> US Department of Housing and Urban Development, "Worst Case Housing Needs 2021 Report to Congress", (2021), at: <https://www.huduser.gov/PORTAL/sites/default/files/pdf/Worst-Case-Housing-Needs-2021.pdf>

Coalition, approximately 7.6 million low-income households spend more than 50% of their income on housing costs.<sup>30</sup> The lack of affordable housing further leads to negative social outcomes across multiple other dimensions of daily life, as families and individuals are compelled to make trade-offs between spending on rent and other essentials, such as food, healthcare and transport. The COVID-19 pandemic has further exacerbated these issues. Lockdowns and the economic impact of the pandemic crisis resulted in more than 50% of all renter households and nearly 40% of homeowners to lose some source of income in 2020. As a result, millions of households fell behind on their housing payments, many on the brink of eviction or foreclosure.<sup>31</sup>

A multi-faceted approach is currently being implemented to try to address the severe housing shortage in the US. In 2021, the US federal government announced the allocation of USD 711 million towards The National Housing Trust Fund, an annual grant to states for the creation, preservation or rehabilitation of rental housing for extremely low-income renters.<sup>32</sup> Further, through the American Rescue Plan, the US federal government has committed to reducing housing insecurity post-COVID-19 with the allocation of USD 5 billion towards various programmes to create affordable housing and services to support communities across the country.<sup>33,34</sup> In addition to the supporting policies, manufactured housing is considered to be a good solution for low-income households.<sup>35</sup> According to the Urban Institute, manufactured housing is 35% to 47% less expensive per square foot than new or existing site-built homes.<sup>36</sup>

Given this context, Sustainalytics views positively the financing of affordable housing under the Framework, which is expected to meaningfully contribute to the alleviation of the affordable housing shortage in the US.

### Importance of financing low-interest mortgages in the US

Access to financial services plays a key role in assisting people overcome poverty and manage financial emergencies. Mortgage services in particular can make home ownership more affordable and help to stabilize the monthly housing costs of low-income families. However, borrowers in lower income areas face a number of challenges when accessing mortgage loans, one of which is an unfavourable credit market. The Urban Institute's Housing Credit Availability Index shows that mortgage credit availability in the US has been declining for over the last decade and reached a record low in 2020.<sup>37</sup> In this environment, low-income borrowers are more likely to be further burdened, as they tend to have lower credit scores which prevent them from receiving standard mortgage loan approvals.<sup>38</sup>

According to the Federal Reserve Bank of New York, fewer than one in five low-income borrowers have a mortgage, and the homeownership rates of low-income communities are more than two times lower than high-income neighbourhoods.<sup>39</sup> The limited availability of small-dollar mortgages (under USD 70,000) is yet another notable issue making financing for low-cost homes even more difficult. Lenders in the US do not normally offer small-dollar loans as the costs of originating loans do not vary in relation to the amount borrowed and the fees charged as a percentage of the loan balance are capped.<sup>40</sup>

Based on the above, Sustainalytics believes that the provision of accessible mortgage loans under the Framework is expected to contribute to reducing financing barriers to the target population in the US, helping to further access to affordable housing in the country.

<sup>30</sup> Ibid.

<sup>31</sup> Joint Center for Housing Studies of Harvard University, "The State of the Nation's Housing 2021", at:

[https://www.jchs.harvard.edu/sites/default/files/reports/files/Harvard\\_JCHS\\_State\\_Nations\\_Housing\\_2021.pdf](https://www.jchs.harvard.edu/sites/default/files/reports/files/Harvard_JCHS_State_Nations_Housing_2021.pdf)

<sup>32</sup> National Low Income Housing Coalition, "FHFA Announces \$711 Million for National Housing Trust Fund", (2021), at: <https://nlihc.org/resource/fhfa-announces-711-million-national-housing-trust-fund>

<sup>33</sup> The White House, "American Rescue Plan", (2021), at:

<https://www.whitehouse.gov/wp-content/uploads/2021/03/American-Rescue-Plan-Fact-Sheet.pdf>

<sup>34</sup> US Department of Housing and Urban Development, "HUD Announces \$5 billion to Increase Affordable Housing to Address Homelessness", (2021), at: [https://www.hud.gov/press/press\\_releases\\_media\\_advisories/hud\\_no\\_21\\_055](https://www.hud.gov/press/press_releases_media_advisories/hud_no_21_055)

<sup>35</sup> Office of Policy Development and Research, "Factory-Built Housing for Affordability, Efficiency, and Resilience", (2020), at:

<https://www.huduser.gov/portal/periodicals/em/WinterSpring20/highlight1.html>

<sup>36</sup> Urban Institute, "Manufactured Homes Could Ease the Affordable Housing Crisis. So Why Are So Few Being Made", (2018), at:

<https://www.urban.org/urban-wire/manufactured-homes-could-ease-affordable-housing-crisis-so-why-are-so-few-being-made>

<sup>37</sup> Urban Institute, "Housing Credit Availability Index", at:

<https://www.urban.org/policy-centers/housing-finance-policy-center/projects/housing-credit-availability-index>

<sup>38</sup> Joint Center for Housing Studies of Harvard University, "The State of the Nation's Housing 2021", at:

[https://www.jchs.harvard.edu/sites/default/files/reports/files/Harvard\\_JCHS\\_State\\_Nations\\_Housing\\_2021.pdf](https://www.jchs.harvard.edu/sites/default/files/reports/files/Harvard_JCHS_State_Nations_Housing_2021.pdf)

<sup>39</sup> Federal Reserve Bank of New York, "The State of Low Income America: Credit Access & Debt Payment", (2020), at:

<https://www.newyorkfed.org/medialibrary/media/press/the-state-of-low-income-america-credit-access-debt-payment>

<sup>40</sup> Joint Center for Housing Studies of Harvard University, "The State of the Nation's Housing 2021", at:

[https://www.jchs.harvard.edu/sites/default/files/reports/files/Harvard\\_JCHS\\_State\\_Nations\\_Housing\\_2021.pdf](https://www.jchs.harvard.edu/sites/default/files/reports/files/Harvard_JCHS_State_Nations_Housing_2021.pdf)

### Importance of energy efficiency improvements for buildings in the US

As per the Global Alliance for Buildings and Construction, the building sector contributes significantly to global energy consumption and total GHG emissions, estimated to account for 37% of total energy-related CO<sub>2</sub> emissions in 2021.<sup>41</sup> In the US, residential and commercial buildings account for 40% of total US energy consumption.<sup>42</sup> Notably, the establishment of clear efficiency standards for equipment and appliances as well as stronger building codes have helped to significantly improve energy efficiency in the buildings sector.<sup>43</sup> The Center for Climate and Energy Solutions attributes improvements in energy efficiency in buildings to the growth of smart meters and other intelligent components enabling more systems to be designed with an efficiency strategy.<sup>44</sup> This indicates the important role that investments in retrofits, renovations and building developments play in minimizing the adverse environmental impacts of commercial and residential buildings. Furthermore, the Intergovernmental Panel on Climate Change recommends property managers incorporate energy efficiency principles, including reducing heat, light and cooling loads, taking advantage of heat sources and sinks, using systems approaches to building design, and considering the efficiency of appliances, cooling and heating equipment, and ventilation systems.<sup>45</sup>

In this context, Sustainalytics is of the opinion that UMH's financing of energy efficiency activities and technologies, such as installing LED lights and smart thermostats in its properties based in the US, is expected to contribute to emissions reductions in the building sector of the country.

<sup>41</sup> Global Alliance for Buildings and Construction, "2021 Global Status Report for Buildings and Construction", (2021), at:

[https://globalabc.org/sites/default/files/2021-10/GABC\\_Buildings-GSR-2021\\_BOOK.pdf](https://globalabc.org/sites/default/files/2021-10/GABC_Buildings-GSR-2021_BOOK.pdf)

<sup>42</sup> U.S. Energy Information Administration FAQ, (2021), at: <https://www.eia.gov/tools/faqs/faq.php?id=86&t=1>

<sup>43</sup> The U.S Energy Information Administration, "U.S. energy consumption by source and sector, 2020", at: <https://www.eia.gov/energyexplained/us-energy-facts/images/consumption-by-source-and-sector.pdf>

<sup>44</sup> The Center for Climate and Energy Solutions, "Decarbonizing U.S. Buildings", (2018), at:

<https://www.c2es.org/site/assets/uploads/2018/06/innovation-buildings-background-brief-07-18.pdf>

<sup>45</sup> The Intergovernmental Panel on Climate Change, "Climate Change 2007: Mitigation of Climate Change", (2007), at:

[https://archive.ipcc.ch/pdf/assessment-report/ar4/wg3/ar4\\_wg3\\_full\\_report.pdf](https://archive.ipcc.ch/pdf/assessment-report/ar4/wg3/ar4_wg3_full_report.pdf)

### Alignment with/contribution to SDGs

The SDGs were adopted in September 2015 by the United Nations General Assembly and form part of an agenda for achieving sustainable development by the year 2030. The bonds issued under the Framework advance the following SDGs and targets:

Use of Proceeds Category	SDG	SDG target
Affordable Housing	11. Sustainable Cities and Communities	11.1 By 2030, ensure access for all to adequate, safe and affordable housing, and basic services and upgrade slums
Access to Essential Services	8. Decent Work and Economic Growth	8.10 Strengthen the capacity of domestic financial institutions to encourage and expand access to banking, insurance and financial services for all
Sustainable Water and Wastewater Management	6. Clean Water and Sanitation	6.4 By 2030, substantially increase water-use efficiency across all sectors and ensure sustainable withdrawals and supply of freshwater to address water scarcity and substantially reduce the number of people suffering from water scarcity
Energy Efficiency	7. Affordable and Clean Energy	7.3 By 2030, double the global rate of improvement in energy efficiency

### Conclusion

UMH Properties has developed the UMH Properties Inc. Sustainable Bond Framework under which it may issue sustainability bonds and use the proceeds to finance or refinance, in whole or in part, existing and future projects that will improve access to affordable housing and contribute to safe and clean drinking water access and energy efficiencies thereof. Sustainalytics considers that the projects funded by the sustainability bond proceeds are expected to provide positive environmental and social impacts.

The Framework outlines a process by which proceeds will be tracked, allocated, and managed, and commitments have been made for reporting on the allocation and impact of the use of proceeds. Furthermore, Sustainalytics believes that the Framework is aligned with the overall sustainability strategy of the Company and that the use of proceeds categories will contribute to the advancement of the UN Sustainable Development Goals 6, 7, 8 and 11. Additionally, Sustainalytics encourages the Company to develop formal policies that adequately address all environmental and social risks associated with the eligible projects.

Based on the above, Sustainalytics is of the opinion that UMH is adequately positioned to issue sustainability bonds and that the Framework is robust, transparent, and in alignment with the four core components of the Green Bond Principles 2021, and the Social Bond Principles 2021.

## Appendix

### Appendix 1: Sustainability Bond / Sustainability Bond Programme - External Review Form

#### Section 1. Basic Information

Issuer name:	UMH Properties Inc.
Sustainability Bond ISIN or Issuer Sustainability Bond Framework Name, if applicable:	UMH Properties Inc. Sustainable Bond Framework
Review provider's name:	Sustainalytics
Completion date of this form:	March 1, 2022
Publication date of review publication:	

#### Section 2. Review overview

##### SCOPE OF REVIEW

The following may be used or adapted, where appropriate, to summarise the scope of the review.

The review assessed the following elements and confirmed their alignment with the GBP and SBP:

- |  |  |
|--|--|
| <input checked="" type="checkbox"/> Use of Proceeds        | <input checked="" type="checkbox"/> Process for Project Evaluation and Selection |
| <input checked="" type="checkbox"/> Management of Proceeds | <input checked="" type="checkbox"/> Reporting                                    |

##### ROLE(S) OF REVIEW PROVIDER

- |   |  |
|---|--|
| <input checked="" type="checkbox"/> Consultancy (incl. 2 <sup>nd</sup> opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification   | <input type="checkbox"/> Rating        |
| <input type="checkbox"/> Other ( <i>please specify</i> ):                       |  |

Note: In case of multiple reviews / different providers, please provide separate forms for each review.

##### EXECUTIVE SUMMARY OF REVIEW and/or LINK TO FULL REVIEW (*if applicable*)

Please refer to Evaluation Summary above.

#### Section 3. Detailed review

Reviewers are encouraged to provide the information below to the extent possible and use the comment section to explain the scope of their review.

## 1. USE OF PROCEEDS

Overall comment on section (*if applicable*):

The eligible categories for the use of proceeds – Affordable Housing, Access to Essential Services, Sustainable Water and Wastewater Management, and Energy Efficiency – are aligned with those recognized by the Green Bond Principles and the Social Bond Principles. Sustainalytics considers that investments in the eligible categories are expected to lead to positive environmental and social impacts and advance the UN Sustainable Development Goals, specifically SDGs 6, 7, 8 and 11.

### Use of proceeds categories as per GBP:

- |  |  |
|--|--|
| <input type="checkbox"/> Renewable energy  | <input checked="" type="checkbox"/> Energy efficiency  |
| <input type="checkbox"/> Pollution prevention and control  | <input type="checkbox"/> Environmentally sustainable management of living natural resources and land use |
| <input type="checkbox"/> Terrestrial and aquatic biodiversity conservation   | <input type="checkbox"/> Clean transportation  |
| <input checked="" type="checkbox"/> Sustainable water and wastewater management  | <input type="checkbox"/> Climate change adaptation   |
| <input type="checkbox"/> Eco-efficient and/or circular economy adapted products, production technologies and processes                             | <input type="checkbox"/> Green buildings   |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with GBP categories, or other eligible areas not yet stated in GBPs | <input type="checkbox"/> Other (please specify):   |

If applicable please specify the environmental taxonomy, if other than GBPs:

### Use of proceeds categories as per SBP:

- |   |   |
|---|---|
| <input type="checkbox"/> Affordable basic infrastructure  | <input checked="" type="checkbox"/> Access to essential services                        |
| <input checked="" type="checkbox"/> Affordable housing  | <input type="checkbox"/> Employment generation (through SME financing and microfinance) |
| <input type="checkbox"/> Food security  | <input type="checkbox"/> Socioeconomic advancement and empowerment                      |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with SBP categories, or other eligible areas not yet stated in SBP | <input type="checkbox"/> Other (please specify):  |

If applicable please specify the social taxonomy, if other than SBP:

## 2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (if applicable):

UMH Properties Inc.'s Sustainability Bond Committee, comprising of its Director of ESG and an independent board member, along with its legal and management teams, will oversee the identification and selection of the eligible projects. While UMH Properties Inc. has adopted internal processes to comply with the regional environmental and social regulations, it lacks adequate systems and processes to manage some of the identified risks, which is a deviation from market expectations.

#### Evaluation and selection

- |   |  |
|---|--|
| <input checked="" type="checkbox"/> Credentials on the issuer's social and green objectives                                 | <input checked="" type="checkbox"/> Documented process to determine that projects fit within defined categories    |
| <input checked="" type="checkbox"/> Defined and transparent criteria for projects eligible for Sustainability Bond proceeds | <input type="checkbox"/> Documented process to identify and manage potential ESG risks associated with the project |
| <input type="checkbox"/> Summary criteria for project evaluation and selection publicly available                           | <input type="checkbox"/> Other (please specify):   |

#### Information on Responsibilities and Accountability

- |  |  |
|--|--|
| <input checked="" type="checkbox"/> Evaluation / Selection criteria subject to external advice or verification | <input type="checkbox"/> In-house assessment |
| <input type="checkbox"/> Other (please specify):   |  |

### 3. MANAGEMENT OF PROCEEDS

Overall comment on section *(if applicable)*:

UMH Properties Inc.'s Sustainability Bond Committee will be responsible for the management and tracking of bond proceeds. UMH intends to achieve full allocation of bond proceeds within 36 months of each issuance. Unallocated proceeds may be temporarily used to refinance existing debt and preferred stocks or invested per UMH Properties Inc.'s cash investment policy. This is in line with market practice.

#### Tracking of proceeds:

- |   |
|---|
| <input checked="" type="checkbox"/> Sustainability Bond proceeds segregated or tracked by the issuer in an appropriate manner |
| <input checked="" type="checkbox"/> Disclosure of intended types of temporary investment instruments for unallocated proceeds |
| <input type="checkbox"/> Other (please specify):  |

#### Additional disclosure:

- |   |   |
|---|---|
| <input type="checkbox"/> Allocations to future investments only | <input checked="" type="checkbox"/> Allocations to both existing and future investments |
| <input type="checkbox"/> Allocation to individual disbursements | <input type="checkbox"/> Allocation to a portfolio of disbursements                     |

- Disclosure of portfolio balance of unallocated proceeds
  Other (please specify):

#### 4. REPORTING

Overall comment on section (if applicable):

UMH intends to report on the allocation of proceeds until full allocation as part of its annual ESG reports published on its website. The allocation reporting will include details on the allocation of proceeds, and the balance of unallocated proceeds. In addition, UMH Properties Inc. intends to report on qualitative and quantitative impacts and has provided indicative metrics in the Framework. Sustainalytics views UMH's allocation and impact reporting as aligned with market practice.

#### Use of proceeds reporting:

- Project-by-project
  On a project portfolio basis
- Linkage to individual bond(s)
  Other (please specify):

#### Information reported:

- Allocated amounts
  Sustainability Bond financed share of total investment
- Other (please specify):

#### Frequency:

- Annual
  Semi-annual
- Other (please specify):

#### Impact reporting:

- Project-by-project
  On a project portfolio basis
- Linkage to individual bond(s)
  Other (please specify):

#### Information reported (expected or ex-post):

- GHG Emissions / Savings
  Energy Savings
- Decrease in water use
  Number of beneficiaries
- Target populations
  Other ESG indicators (please specify): Number of affordable housing units purchased/financed; number of units retrofitted with smart thermostats and LED lights; communities and units water metered; water recycling and clean drinking water programs.

**Frequency:**

- Annual  Semi-annual  
 Other (please specify):

**Means of Disclosure**

- Information published in financial report  Information published in sustainability report  
 Information published in ad hoc documents  Other (please specify):  
 Reporting reviewed (if yes, please specify which parts of the reporting are subject to external review):

Where appropriate, please specify name and date of publication in the useful links section.

**USEFUL LINKS (e.g. to review provider methodology or credentials, to issuer's documentation, etc.)**

**SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE**

**Type(s) of Review provided:**

- Consultancy (incl. 2<sup>nd</sup> opinion)  Certification  
 Verification / Audit  Rating  
 Other (*please specify*):

**Review provider(s):**

**Date of publication:**

**ABOUT ROLE(S) OF REVIEW PROVIDERS AS DEFINED BY THE GBP AND THE SBP**

- i. **Second-Party Opinion:** An institution with sustainability expertise that is independent from the issuer may provide a Second-Party Opinion. The institution should be independent from the issuer's adviser for its Sustainability Bond framework, or appropriate procedures such as information barriers will have been implemented within the institution to ensure the independence of the Second-Party Opinion. It normally entails an assessment of the alignment with the Principles. In particular, it can include an assessment of the issuer's overarching objectives, strategy, policy, and/or processes relating to sustainability and an evaluation of the environmental and social features of the type of Projects intended for the Use of Proceeds.
- ii. **Verification:** An issuer can obtain independent verification against a designated set of criteria, typically pertaining to business processes and/or sustainability criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the environmentally or socially sustainable features of underlying assets may be termed verification and may reference external criteria. Assurance or attestation regarding an issuer's internal tracking method for use of proceeds, allocation of funds from Sustainability Bond proceeds, statement of environmental or social impact or alignment of reporting with the Principles may also be termed verification.
- iii. **Certification:** An issuer can have its Sustainability Bond or associated Sustainability Bond framework or Use of Proceeds certified against a recognised external sustainability standard or label. A standard or label defines

specific criteria, and alignment with such criteria is normally tested by qualified, accredited third parties, which may verify consistency with the certification criteria.

- iv. **Green, Social and Sustainability Bond Scoring/Rating:** An issuer can have its Sustainability Bond, associated Sustainability Bond framework or a key feature such as Use of Proceeds evaluated or assessed by qualified third parties, such as specialised research providers or rating agencies, according to an established scoring/rating methodology. The output may include a focus on environmental and/or social performance data, process relative to the Principles, or another benchmark, such as a 2-degree climate change scenario. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material sustainability risks.

## Disclaimer

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