MAA
A Brighter View

CONFERENCE CALL TRANSCRIPT: 2Q2011
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Leslie Wolfgang
Good morning. This is Leslie Wolfgang, Director of External Reporting for MAA. With me are Eric Bolton, our CEO, Al Campbell, our CFO, Tom Grimes, Director of Property Management and Drew Taylor, Director of Asset Management.

Before we begin I want to point out that as part of the discussion this morning company management will make forward-looking statements. Please refer to the safe-harbor language included in yesterday's press release and our 34-Act filings with the SEC which describe risk factors that may impact future results. These reports, along with a copy of today's prepared comments, and an audio copy of this morning's call will be available on our website.

I'll now turn the call over to Eric.

Eric Bolton
Thanks Leslie. We appreciate all of you joining our call this morning.

I want to start by letting you know why we were later than normal in making our earnings release yesterday. We had a last minute question come up concerning the accounting treatment surrounding a component of our long-term incentive program. It involves a highly technical area of accounting literature and after discussion with our auditors we made a non-cash adjustment in the quarter of $1.8 million as outlined in the earnings release. This is a non-cash adjustment, that covers the last 4 years and has no impact what-so-ever on the amount of incentive opportunity that was available to be earned, nor any impact on the awards to employees. Al will provide more detail in his comments but I wanted to let you know what caused us to be late in making the release yesterday.

As reflected in our second quarter results, leasing conditions remain strong with favorable pricing trends, low resident turnover and high occupancy. Overall operating results were a little better than we expected for the quarter and we forecast continued strong leasing conditions over the second half of the year.

In the second quarter, year-over-year revenue growth was driven by strong pricing trends with new lease pricing increasing 7.5% as compared to the prior year, which is up slightly from the 7.4% trend reported in the first quarter. With new lease pricing now running ahead of in place rents, we are also capturing improving trends in renewal pricing with lease renewals in the second quarter up an average of 5.1% over the prior lease. With resident turnover at historic lows, vacancy exposure in acceptable ranges, and leasing traffic running ahead of last year, we expect continued strong pricing performance in the second half of the year.

Pricing improved on both a year-over-year basis and on a sequential quarter basis across all of our markets. Within our large market segment of the portfolio we captured the strongest pricing performance in Austin, Phoenix, South Florida and Dallas. On a sequential basis, Dallas, Houston and Austin all continue to look strong and we expect continued solid pricing momentum there. Atlanta's performance in the second quarter remained sluggish and has not yet captured the recovery trends that we're experiencing in Texas. However, new lease pricing is improving there and we're encouraged with the trends that are starting to build. We expect Atlanta will be a stronger market for us over the second half of the year. Our secondary market segment of the portfolio continues to perform very well with strong pricing trends continuing in Memphis, Little Rock, Jackson, MS and Columbus, GA.

While there is certainly more talk and effort being taken to get new development underway in a number of markets across the country, we continue to believe that meaningful new supply pressure is not a significant worry over the next couple of years. Trends associated with new households favoring rental housing, plus existing rental households staying put in the rental market, on a combined basis should have a significant positive impact on demand and more than off-set what new supply does get delivered over the next couple of years.

In his comments, Al will give you more specifics on the balance sheet and the terrific progress being made there. We're committed to a steady program of positioning the balance sheet to further access the unsecured debt market. Fortunately, in order to accomplish this we are not facing any need to de-leverage the balance sheet in a significant way or take actions that would require material dilution to our existing earnings stream or shareholder value. Our balance sheet metrics are strong and well positioned to support our external growth program.

As outlined in the earnings release we were pretty busy on the acquisitions front during the second quarter closing on five acquisitions. While there clearly is more capital in the market chasing apartment real estate, we continue to have very good deal flow and expect we will be successful in capturing slightly more growth this year than we originally forecast. Year to date we have acquired almost 1,900 units for a total investment of $208 million and are excited about the earnings growth to be realized from these recent acquisitions.

Construction is underway at our three development projects and proceeding according to forecast. We will carry most of the earnings dilution associated with lease-up activities on these development deals next year. We expect to capture an NOI yield of just over 8% upon stabilization from this development pipeline in 2013 and strong new earnings growth thereafter.

In summary, we continue to feel very good the company's position at this point in the cycle and look forward to increasing value growth from our existing portfolio as well as additional new investment opportunities.

I'll now hand the call over to Al for more insights on our second quarter results, financing activities and an update on earnings guidance. Al.

Al Campbell
Thank you Eric, and good morning everyone. Excluding the non-cash expenses related to the accounting adjustment Eric mentioned, we reported FFO for the second quarter of $38 million or $0.98 cents per Share, on a diluted basis. As mentioned in our release, we closed over $150 million of acquisitions during the quarter, which produced up-front acquisition expenses of about $1.5 million, or $0.04 per Share. Our forecast for the quarter anticipated about half of this volume, or only $0.02 per Share of the acquisition expenses. Excluding both the non-cash expenses and these additional acquisition expenses, FFO for the second quarter was $1.00 per Share, a penny ahead of the mid-point of our previous guidance.

Our same store portfolio performed well during the second quarter, as our revenues grew 3.8% driven by a 3.5% increase in effective rents for the quarter. Our turnover rate ended the quarter at a record low 54.4%, on an annualized basis, as the percentage of move-outs to purchase a home remained well below historic norms. Overall, our operating expenses were in-line with our expectations for the quarter, increasing 2.9% over the prior year. Real estate tax and utility expenses produced most of the expense growth, making up over half of the total increase. We ultimately bill about 75% of our water costs to our residents, but the recovery is in included in our operating revenues. As we have outlined before, our real estate tax expenses have declined more than 8% over the last two years, as tax valuations have fallen throughout our portfolio. But we do expect growing multifamily fundamentals to begin producing pressure on real estate taxes for the current year, as many states and municipalities deal with budget issues. We continue to expect a full year increase of 3.5% for this line item, which represents almost a quarter of our overall operating costs. We should have much more information about tax rates at the time of our next quarterly release.

We were very active acquirers during the second quarter, purchasing five high quality and wholly-owned communities. All five properties were stabilized on acquisition, with an average cap rate on the first year's projected earnings ranging between 5.75% and 6.0%. Though we incurred $0.02 unexpected acquisition costs during the second quarter, we expect additional contribution over the back half of the year from having these yielding properties in place earlier than anticipated.

We were also very active in managing our capital structure during the quarter. In June, we received an initial credit rating of BBB flat from Fitch, which we put to work immediately through issuing of our first unsecured bond series. We priced a $135 million private placement of unsecured senior notes with an average maturity of 9.1 years and average interest rate of 5.15%, in June. Due to strong investor demand, the offering was upsized from $100 million and the deal was closed and funded last week. The proceeds will be used to pay off the only remaining current year debt maturity, an $80 million tranche of our Fannie Mae facility, and to fund the debt portion of acquisition and development activity. Given favorable credit market conditions, we moved earlier than originally planned to execute this transaction, which will cost use about $0.03 per Share in FFO over the back half of the year, but represents a very good investment in our balance sheet structure.

Also in order to fund the equity portion of our acquisition and development activity, we raised $34.1 million in net proceeds during the quarter by issuing about 529 thousand new common shares through our ATM program at an average price of $64.53 per share, net of issuance costs. We plan to continue using our ATM program and lines of credit to “match” fund investment activity for the remainder of the year.

Our balance sheet was in great shape at the end of the second quarter, with our leverage (defined as debt-to-gross assets) at 47% and with EBITDA for the quarter covering fixed charges 3.6 times, compared to the sector average of around 2.6 times. At quarter end, over 87% of our debt was fixed or hedged against rising interest rates, with well staggered maturities averaging 4.5 years. We expect to end the year with our leverage at or just below current levels.

As Eric mentioned, we had a late question come up this quarter regarding the accounting treatment for our restricted stock plans. This issue relates to a prior Company practice, used only for the convenience of our employees, allowing certain employees (not including any executive officers) to sell their awarded shares directly back to the company upon vesting. Under ASC 718, this practice triggered an “implied requirement” to purchase the vesting shares, which produced the cumulative $1.8 million non-cash adjustment in order to change to the liability method of accounting for certain plans. It’s important to understand that this issue relates to matters of technical interpretation of very complex accounting standards, rather than how these incentive plans were actually created or managed by the Company.

Finally, excluding the non-cash expenses just mentioned, we are adding $0.02 per Share to our earnings guidance for the full year. This revision is primarily related to an expected stronger contribution from our recent acquisition and lease-up properties. While we still believe a full year NOI growth range of 4%-6% is appropriate for our same store portfolio, the combination of higher projected lease-up property performance and the significant volume of yielding properties acquired during the second quarter produces an additional $0.05 per Share in our FFO projection for the second half of 2011. This performance will be partially offset by the $0.03 per Share in additional costs related to the recent bond transaction, resulting in the net increase of $0.02 per share to the full year guidance. Excluding the non-cash expenses related to the adjustment of our stock plans, our guidance is now for full year FFO per Share in the range of $3.92 to $4.12 per share, or $4.02 at the mid-point. Including the non-cash expenses, FFO is expected to range from $3.87 to $4.07

That's all we have in the way of prepared comments.