



CONFERENCE CALL TRANSCRIPT: 2Q2012

August 3, 2012 9:00 AM CDT

Leslie Wolfgang

Good morning. This is Leslie Wolfgang, Director of Investor Relations for MAA. With me are Eric Bolton, our CEO, Al Campbell, our CFO and Tom Grimes, our COO.

Before we begin with our prepared comments this morning, I want to point out, that as part of the discussion, company management will be making forward-looking statements. Actual results may differ materially from our projections. We encourage you to 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

Second quarter results were at the top end of our expectations reflecting continued strong leasing conditions across our Sunbelt markets. Given the favorable second quarter performance, accelerating rent growth, an active acquisitions pipeline and the progress to date on securing an investment grade rating, we have raised FFO guidance for the year and expect another record performance in 2012.

Property performance was driven by accelerating growth in pricing, with continued low resident turnover and high occupancy. We're encouraged by the trend in year-over-year pricing with the second quarter's growth in average effective rent increasing to 5.2% as compared to 4.7% in the first quarter. We expect pricing performance will remain strong in the third quarter before we begin to see normal seasonal moderation in the holiday season. The third quarter is always a busy leasing quarter for us, and we'll get a lot more clarity on real estate taxes over the next couple of months, but in summary, leasing conditions across our markets remain very good and we're optimistic about NOI performance over the back half of the year.

As detailed in the second quarter release, the large market segment of our portfolio continues to perform very well with 7.7% NOI growth for the quarter.

Our secondary market segment also delivered very solid performance with 5.2% NOI growth. This difference in performance between market segments is in line with our full-cycle portfolio strategy and it's what we expect at this point in the cycle. Until we see new supply trends pick up in a more meaningful way, I expect we will continue to see this performance pattern with our large market segment outperforming our secondary market segment. However, with minimal new permitting activity underway in the secondary market segment of the portfolio, we expect that we will see the ratio of job growth to new supply begin to favor the secondary markets of the portfolio by mid to late 2013.

Let me expand on this point a little. In thinking about the likely future direction of market conditions and the outlook for leasing, we compare job growth forecasts to expected new supply, which we base off of actual permitting activity. During the last recovery cycle, from 2004 to 2007, across our markets we saw 7 new jobs created for each completed unit associated with new development permits being pulled, or a ratio of 7 to 1. Given the current increasing trend in permitting activity and a continued slow recovery in the employment market, the current outlook for our large tier markets is that the ratio of new jobs to new supply will moderate from a current 14 to 1 ratio, to an expected ratio of 8 to 1 next year. What's important to recognize is that this is still a very healthy leasing environment and is better than the ratios that we experienced during the last recovery cycle. And this is, of course, especially true considering today's lower propensity for new and existing households to become homeowners as compared to the 2004 to 2007 timeframe. Looking at our secondary markets the story is even better. Based on the forecasts we have, we expect the ratio of job growth to new supply in our secondary markets will actually improve slightly next year to 11 to 1 from the 10 to 1 relationship we have today. There are of course a lot of different ways to underwrite the risk associated with new supply increasing in a given market or region, but based on how we measure and assess the apartment leasing environment heading into 2013, we continue to feel good about our ability to capture solid rent growth across our portfolio over the balance of this year and through 2013.

On the transaction front our group remains active and is underwriting quite a bit of opportunity at the moment. As outlined in our earnings release we have raised our outlook for new acquisitions to a range of \$300 million to \$350 million. The environment remains competitive but as we get closer to year end, we find that our established record of being able to move quickly and definitively through due diligence and close on the transaction attracts more interest. We've closed on \$191 million in acquisitions so far this year and expect to continue with an active capital re-cycling effort into higher margin investments over the next couple of years. As we pursue new investment alternatives, we remain committed to our Sunbelt footprint and two-tier market strategy across the region.

As noted in our earnings release, Moody's assigned an initial investment grade rating to MAA during the second quarter reflecting the work and commitment

made to further strengthen our balance sheet and broaden access to capital. We have more work to accomplish in growing our unencumbered asset base, but we are well on our way towards completing this goal. We currently have over \$260 million of capacity available from cash and in-place credit facilities and are well positioned to continue supporting new growth objectives.

In summary, we're encouraged with the outlook for continued solid NOI growth from both our same store and non-same store properties. Our new development lease-ups are performing better than projected and are expected to make an increasingly meaningful contribution to FFO performance over the next couple of years. We believe MAA is well positioned to continue capturing solid results in this robust part of the market cycle, while retaining solid downside protection as market conditions eventually cycle or if more pronounced weakness in the economy were to occur.

And with that I'll now turn the call over to AI for more insights on our second quarter results. AI.

AI Campbell

Thank you Eric, and good morning everyone. I'll provide comments on earnings performance for the second quarter, as well as a few highlights regarding investing and financing activities. FFO for the quarter was \$48.3 million, or \$1.13 per share, which was \$0.06 above the mid-point of our prior guidance and represents another record for the company. This strong result for the quarter was produced by several areas of our business all performing above expectations, including the same store portfolio, development activities, as well as financing costs.

Same store NOI grew 6.5% in the second quarter, based on a 4.6% increase in revenues and a 1.9% increase in operating expenses. Revenue growth was driven by the 5.2% increase in effective rents compared to the prior year, which was essentially in-line with expectations. Operating expenses moderated more than projected from the first quarter, primarily due to personnel and repair and maintenance costs, producing about \$0.02 per share of favorability to our forecast.

Non-same store communities, consisting of development and recent acquisitions, also outperformed expectations during the second quarter, producing an additional \$0.02 per share in favorability, the majority of which was related to the two development communities currently in lease-up (Cool Springs in Nashville and Ridge at Chenal Valley in Little Rock), which are both ahead of plan.

The remaining \$0.02 per share in favorability for the quarter primarily comes from financing and acquisition costs. About half of this (or a penny per share) is timing in nature, related to lower than projected deal volume in the second quarter, which we now expect to occur in the third quarter.

During the second quarter we acquired two wholly-owned communities and purchased the remaining two-thirds interest in one community from Fund II, one of the company's joint venture. In July, we purchased an additional wholly-owned community bringing year-to-date acquisitions, including the joint venture purchase, to just over \$191 million, at an overall average NOI yield of about 6.0%.

As part of our disposition plans for the year, we sold one community during the second quarter and four additional communities in July and early August. These sales bring year-to-date proceeds from property dispositions to \$88.5 million, for which we expect to report total net gains of about \$33 million. We have two remaining communities planned for sale this year, which are in the contract phase. We expect an overall cap rate for this year's dispositions of about 6.7% (based on in-place earnings, after deducting a 4% management fee and \$350/unit capex).

Construction and lease-up continue to progress very well on the four communities currently under development. During the second quarter we funded an additional \$16 million toward completion, bringing the total investment to \$97.1 million of the estimated full construction cost of \$143.6 million. One-third, or 405, of the planned units were delivered as of the end of the second quarter, which were 96% leased at rent levels exceeding pro forma expectations. We expect to complete construction on three of the four communities by year-end, with the remaining community expected to be completed in the fourth quarter of 2013

Regarding our balance sheet and financing activities, during the second quarter we used unsecured proceeds from our recent term loan and bank credit facility to fund acquisition and development activity and to repay additional secured debt. During the quarter, we repaid an additional \$150 million of our agency credit facilities, releasing the related mortgages which, along with our acquisition activity, increased our unencumbered asset pool to 48% of gross assets at the end of the second quarter, as compared to 31% at year-end.

As Eric mentioned, in July we received a first-time investment grade rating from Moody's of Baa2, which is the second level of investment grade under their rating scale. This rating, along with our existing BBB rating from Fitch, reflects the solid progress toward our balance sheet goals, and immediately reduces the cost of borrowings under both our bank credit facility and recent term loan, which have "built-in" investment grade pricing options. The credit spreads on borrowings under these agreements are now 135 basis points to 150 basis points over LIBOR, a 30 basis point to 40 basis point reduction from the first quarter.

We ended the second quarter with our balance sheet in a very strong position. Our net-debt was 43.5% of gross assets and 6.7 times EBITDA, and our EBITDA

covered fixed charges 4.4 times. Also at the end of the quarter, 91% of our outstanding debt was fixed or hedged against rising interest rates, resulting in a total average effective rate of 3.8% for the quarter. We believe these metrics put us in good position to pursue an additional credit rating from S&P, with the goal of achieving full investment grade position late this year or early next year.

Finally, given the second quarter performance and updated expectations for the remainder of the year, we're increasing our FFO per share guidance for the full year by \$0.09 per share at the mid-point, \$0.06 of which relates to the second quarter. For the remainder of the year, we expect our same store and non-same store portfolios combined to add \$0.04 per share to results, and we expect an additional \$0.01 per share contribution from lower borrowing costs, primarily related to receiving the additional investment grade rating earlier than anticipated. We expect these favorable items to be partially offset by about \$0.02 per share of additional acquisition costs, related to the timing of deals and the increased acquisition volume expectations for the year.

Our updated FFO guidance for the full year is a range of \$4.37 to \$4.57 per share, which is \$4.47 at the mid-point (a 12% increase over the prior year)

As a reminder, the key assumptions included in our forecast are wholly-owned acquisition volume of \$300 million to \$350 million, disposition volume of \$100 million to \$125 million, and development funding of \$80 million to \$85 million for the year. We also expect our leverage to end the year in the 43% to 46% range, with about 93% of our debt fixed or hedged, and with a total average interest rate ranging from 3.8% to 3.9% for the full year.

We currently have 1.7 million shares (or ~ \$115 million capacity) remaining under our current ATM program. We intend to utilize our ATM program to essentially match fund our acquisition volume over the remainder of the year.