CONFERENCE CALL TRANSCRIPT: 3Q2012
November 2, 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
Thanks Leslie. We appreciate everyone joining us this morning.

Third-quarter performance exceeded the mid-point of our guidance with favorable leasing conditions that continue to support high occupancy and strong rent growth. Resident turnover remains low with third quarter move-outs increasing only 0.7% as compared to the third quarter of last year. Rent growth trends also remain steady with same store effective rent growth of 5.2% in the third quarter, which is consistent with the 5.2% performance captured in the second quarter.

We're currently underway with property level budgeting and forecasting for next year and expect that favorable leasing conditions will continue in 2013. From what we see at our properties, a continued recovery next year in the single-family housing market is unlikely to have a meaningfully negative impact on leasing conditions across our portfolio. Turnover associated with move-outs to single family home buying drove only 18% of our turnover in the third quarter which is consistent with the performance in the proceeding second quarter. Likewise, turnover associated with move-outs to rent a single-family home only contributed to 6% of our move-outs in the third quarter which is again consistent with the proceeding second quarter. While it's reasonable to believe that a more robust recovery in the employment markets and economy could eventually drive more demand for single-family housing, these same factors will also support increasing demand for apartment housing as well.

New apartment supply projections across our portfolio continue to look manageable when compared to the outlook for job growth and growing demand. Within our large market segment of the portfolio, latest projections suggest a ratio of just over 8 jobs to each new unit expected to be delivered next year, which is stronger than the last up cycle we had over the 2004 to 2007 timeframe. Within our secondary market segment, the story is even better, with the job growth to new supply ratio projected to be just over 10 to 1 in 2013. In our large markets you really have to get into sub-market analysis to understand what threat, if any, emerging new supply is likely to have at specific locations. It's worth noting that in a number of the larger markets new supply is more likely to create pressure on locations in more of the urban or core CBD sub-markets and less likely to materially impact most of our locations. Within the secondary markets in general we just don't see much new permitting activity taking place and would expect that this segment of our portfolio is more likely to capture improving performance as compared to our large market segment towards the second half of next year.

As noted in our earnings release we had an active quarter for property transactions selling five properties and acquiring four. Over the past three years we've added a total of $1.1 billion in new properties, with an average age of three years, and as a result we believe we have materially strengthened our long-term earnings outlook.

Construction activities and lease up continues on our four development properties and we look forward to more meaningful earnings contribution from this pipeline in 2013 and 2014. You'll note in the earnings release that we recently closed on a land parcel near downtown Jacksonville and expect to be underway with development of 294 units at this site before year end.

We expect to continue with an active capital recycling program next year as we steadily redeploy capital into higher margin investments. Our strategy remains centered on value creation primarily through the acquisition process and we expect that our markets, the extensive relationships we have across the region, and our established transaction execution capabilities, will continue to yield attractive new investment opportunities next year.

So in summary, we expect to capture record FFO per share results in 2012, out-pacing last year's record result, and expect 2013 will likewise be another record year of performance for MAA.

Al Campbell
Thank you Eric, and good morning everyone. I'll provide comments on earnings performance for the third quarter, as well as a few highlights on investing and financing activities. FFO for the third quarter was $48.2 million, or $1.11 per

share, which was $0.02 per share above the mid-point of prior guidance. Better than expected performance from both our same store portfolio and development and lease-up communities produced the majority of the favorability for the quarter.

Revenue performance for the quarter was essentially in-line with expectations, driven by the 5.2% growth in Average Effective Rent per unit over the prior year, reflecting continued pricing momentum in virtually all markets. Operating expenses for the same store portfolio were better than expectations for the quarter, with lower than projected repair and maintenance, utilities, and real estate tax expenses combining to produce a penny per share favorable result. The remaining penny per share of favorability for the quarter was primarily produced by our development pipeline, as lease-up for the two communities with delivered units continues to outperform expectations.

As Eric mentioned, we were very active in property transactions during the quarter. We invested $218 million in the four new communities acquired which brings our year-to-date acquisition volume to $345 million. Initial cap rates for these acquisitions averaged around 5.6% (on first years projected cash flows, after deducting a 4% management fee and $350/unit capex reserve), which is expected to grow to about 5.8% upon completion of significant upgrade projects on several of the communities.

As part of our annual recycling plan, we also sold five communities during the quarter for total proceeds of $47.3 million, producing a $16.1 million gain on dispositions recorded during the quarter. These sales bring our year-to-date disposition volume to about $100 million, and we have one additional community under contract to sell during the fourth quarter. After completing this final sale, full year disposition volume is expected to be about $113 million for the nine communities averaging 25 years of age. The overall cap rate for these dispositions is expected to be about 6.8% (based on final in-place cash flows, after deducting a 4% management fee and $350/unit capex reserve).

Construction and lease-up continues to progress very well on the four communities under development. During the third quarter we funded an additional $12 million toward completion of the projects, bringing the total investment to nearly $109 million (or about 75%) of the expected total cost of the projects. At quarter-end, Ridge at Chenal Valley in Little Rock was fully delivered, while Cool Springs in Nashville was 75% delivered. Nearly two-thirds of the delivered units were already leased by the end of the third quarter. Cool Springs is expected to be completed during the fourth quarter, while 1225 South Church, in Charlotte, is expected to be completed in the first quarter of 2013, followed by the completion of River’s Walk, in Charleston, in the fourth quarter of 2013. As mentioned in our release, we plan to begin construction on one additional development community located in Jacksonville during the fourth quarter, which is planned to be completed mid-2014.

Our balance sheet ended the quarter in great position and we continued to make progress toward our rating goal. As previously mentioned, during July we received a first-time investment grade rating from Moody's of Baa2 (the second level of investment grade), which immediately reduced the cost of outstanding borrowings under both our unsecured credit facility and term loan by 30 to 40 basis points. During the third quarter, we also expanded our unsecured credit facility to $325 million and issued $175 in Senior Unsecured Notes to pay down additional secured borrowings and fund acquisition and development activity. We also issued 813,000 common shares during the quarter at an average price just over $67 per share, for total net proceeds of $53.7 million, which was also used to fund acquisition and development activity.

During the quarter, we repaid an additional $43 million of secured debt, releasing the related mortgages, which along with our acquisition activity increased our unencumbered asset pool to 51% of gross assets at the end of the third quarter, as compared to 24% one year ago.

At the end of the third quarter, our total debt (net of cash balances) was 44.7% of gross assets and about 7 times EBITDA, while our fixed charge coverage ratio during the third quarter was 4.3 times, well above the rating agency thresholds. Also at the end of the quarter, 90% of our outstanding debt was fixed or hedged against rising interest rates, resulting in a total average effective rate of 3.7% for the quarter. We believe these metrics put us in very good position to pursue an additional credit rating from S&P, with the goal of achieving full investment grade position later this year or early next year.

Finally, given the third quarter performance and updated expectations for the remainder of the year, we're increasing our FFO guidance for the full year by $0.04 per share at the mid-point, $0.02 of which relates to the third quarter results with the remaining $0.02 related to revised expectations from our same store and non-same store portfolios over the remainder of the year.

Our updated FFO guidance for the full year is a range of $4.46 to $4.56 per share, $4.51 at the mid-point, which is a 13% increase over the prior year. The key assumptions included in our forecast are wholly-owned acquisition volume of $345 million to $400 million (a $50 million increase to the top end of the guidance range), disposition volume of about $113, depending on one remaining community under contract, and development funding of $80 to $85 million for the year. We also expect our leverage (defined as net-debt to gross assets) to end the year in the 44% to 46% range, with about 90% of our debt fixed or hedged, and with an average interest cost between 3.7% and 3.8% for the full year.

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