CONFERENCE CALL TRANSCRIPT: 1Q2013
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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.

FFO results for the first quarter of $1.25 per share were at the top end of our expectations and represented a record quarterly result. About half of the favorable performance was due to strong results in same store operating expenses, with the balance of the variance due to lower than expected G&A costs, partially resulting from timing differences versus our forecast. As Al will recap for you in his comments, we've increased the mid-point of our FFO guidance for the year to $4.87 per share as a result of the favorable first quarter result with some offset driven by earlier timing on balance sheet and financing plans.

Same store revenues for the quarter were in line with our expectation as pricing performance drove the results with effective rents increasing in every market across the portfolio. Top performances were captured in Austin, Dallas, Houston and Nashville within our large market segment of the portfolio with Fredericksburg, Lexington and Chattanooga delivering top results in our secondary markets. Resident turnover in the first quarter increased 3% as compared to first quarter last year and at 57% on a rolling 12-month basis, resident turnover continues to trend lower than our long-term average. Move-outs associated with single-family home buying represented 20% of our move-outs in the first quarter, only a slight increase from 18% in Q1 of last year. Move-outs associated with single-family rental continue to not be a meaningful factor driving only 6% of our turnover in the quarter, consistent with the results over the last 8 quarters or so. We continue to believe that a recovering single-family market is a net positive factor for performance across our portfolio. It's interesting to note the three markets driving 63% of the increase in move-outs during the quarter due to home buying – which were Austin, Nashville, and Dallas – also posted the strongest rent growth during the quarter.

Taking a look at permitting activity and new supply trends we continue to believe that as this part of cycle matures our secondary market segment of the portfolio will generate a more stable performance profile and serve to off-set some of the moderation associated with higher levels of supply in the larger markets. Permitting activity within our large market segment has clearly moved up, but is still about 10% below the last peak level during 2006. Encouragingly, permitting within our secondary market segment is still running only at about 50% of where it was at the peak in 2006. More importantly, when looking at the demand side of the equation, job growth prospects continue to show improving trends and when compared to the supply projections suggest that leasing fundamentals should continue to support healthy rent growth. Looking at up-dated projections and the ratio of forecasted new job growth and permitting activity, at a healthy 10 to 1 relationship we continue to believe that while leasing fundamentals and pricing trends will show some moderation from last year's record performance, net absorption across our markets should remain strong and pricing trends should continue to exceed historical averages.

We're actively underway with efforts to sell eleven properties in the portfolio with four of those under contract and expected to close soon. We continue to forecast total dispositions for the year in the $150 to $160 million dollar range.

As noted in the earnings release, during the quarter we closed on the acquisition of Milstead Village in Atlanta from our Fund I joint venture and expect to close on the one remaining property within the fund, located in Houston, during the second quarter. We're currently working on several other acquisition opportunities and remain comfortable with our guidance range for the year of $250 million to $300 million in wholly-owned acquisitions. The market environment remains extremely competitive for fully stabilized properties with cap rates holding steady. We have clearly seen investment capital move increasingly into some of our secondary markets. We continue to believe that our long established record of performing for sellers and extensive deal flow will yield us additional acquisition opportunities this year, but the environment is clearly very competitive.

As we enter the peak leasing season we feel good about the outlook for the year. We don't see any evidence to suggest that the recovering single-family market is a meaningful threat to our ability to capture solid rent growth. And while new apartment deliveries are clearly accelerating, so long as the employment markets continue to show recovery, as we expect they will, we believe absorption will remain strong.

That's all I have in the way of prepared comments and I'll not turn the call over to Al.

Al Campbell
Thank you Eric, and good morning everyone. I'll provide a few comments on earnings performance and balance sheet activity during the quarter, and then I'll highlight the key assumptions included in our updated guidance.

FFO for the fourth quarter was $55.2 million, or $1.25 per diluted share, which represents 12% growth over the prior year, and is $0.06 per share above the mid-point of our previous guidance.

About half (or $0.03 per share) of the favorable performance compared to the original expectations for the quarter came from the same store portfolio, which produced 7.7% NOI growth compared to the prior year verses an expectation of about 6.0%. Revenue performance for the first quarter was in-line with expectations, supported by 4.7% growth in Average Effective Rents and stable occupancy levels. Operating expenses drove the favorability in same store expectations, with personnel, repair and maintenance, and real estate tax expenses combining to produce the majority of the outperformance for the quarter. Real estate tax expense in the first quarter benefited from favorable settlement of prior year appeals, which is expected to be essentially offset over the remainder of the year by continued pressure on taxes in several key areas.

The majority of remaining outperformance in earnings for the quarter was produced by G&A, as bonuses, health insurance, and professional fees were all below projections for the first quarter, with a portion of the favorability related to the timing differences.

During the first quarter MAA acquired one community from Mid-America Multifamily Fund I, a 310-unit property located in Atlanta, and entered an agreement to acquire the remaining community in the Fund, a 316-unit property located in Houston. The gross combined purchase price will be $59 million, including an $18.3 million loan assumed by the company. MAA owns a 1/3rd interest in Fund I, which will be closed following these transactions. MAA continues to hold and pursue joint venture investments through Mid-America Multifamily Funds II and III.

We continued to make good progress on the development pipeline during the first quarter. MAA now has three communities under construction, with two others recently completed and in the lease-up phase. The two lease-up communities both attained 82% occupancy during the quarter and are expected to be stabilized in the second half of 2013. We funded an additional $12.4 million toward completion of the three communities remaining under construction during the first quarter. We took delivery and leased the first half of 1225 South Church, located in Charlotte, and expect delivery of the remaining units during the second quarter. We also expect initial deliveries at River's Walk in Charleston during the second quarter, 31 of which we already leased in the first quarter. Initial deliveries for 220 Riverside, located in Jacksonville, are expected in the second half of 2014.

Our balance sheet ended the quarter in great position. During the first quarter we issued around 325 thousand common shares through the ATM program at an average price of $68.62 per share, for total net proceeds of $22 million, which was primarily used to fund acquisition and development activity. We also repaid $75 million of additional secured borrowings during the first quarter, releasing the mortgages and increasing our unencumbered asset pool to over 57% of gross assets. The company is now in good position to approach the public bond markets for future financing needs.

At the end of the first quarter, company leverage (defined as net-debt-to-gross assets) was 43.7%. Total debt was 6.3 times EBITDA at quarter end, and MAA's fixed charge coverage ratio was 4.5 times. At the end of the quarter, 90% of our outstanding debt was fixed or hedged against rising interest rates, with a total average effective interest rate of 3.6% for the quarter. We expect to increase our protection from rising interest rates with the long-term fixed rate financings planned later this year. Just after quarter-end, MAA entered $150 million in interest rate swaps, effectively locking a portion of the interest rate on expected future financing transactions.

Finally, given the first quarter performance and updated expectations for the remainder of the year, we are increasing our FFO guidance for the full year by $0.04 per share at the mid-point. We are maintaining our same store guidance for the remainder of the year. We continue to expect strong pricing performance and stable occupancy, producing 4% to 5% revenue growth for the full year. We expect operating expenses over the remainder of the year to increase in-line with our original forecast, as turn costs begin to rise with growing leasing activity, and real estate taxes reflect upward pressure in key areas discussed previously. We also expect timing of funding transactions for the year, primarily the planned bond financing and equity activity, to produce about $0.02 per share of dilution compared to the original forecast for the year, as we move somewhat earlier than planned to lower execution risk.

We've outlined the major assumptions for our guidance in the supplemental information provided with the release. In summary, we now project diluted FFO per share for the full year to be $4.77 to $4.97 per share, or $4.87 at the mid-point. Quarterly FFO per share is expected to be $1.16 to $1.28 for the second quarter, $1.13 to $1.25 for the third quarter, and $1.15 to $1.27 for the fourth quarter. Our quarterly guidance ranges continue to reflect the seasonality in our business as well as the potential impact of timing on the significant acquisition, disposition, and financing activity planned for the year.

AFFO for the full year is expected to be $4.10 to $4.30 per share, which represents a 66% payout at the mid-point.

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