MAA
A Brighter View

# CONFERENCE CALL TRANSCRIPT: 3Q2014
**October 30, 2014 9:00 AM CDT**

**Tim Argo**
Good morning. This is Tim Argo, SVP of Finance 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.

During this call, we will also discuss certain non-GAAP financial measures. Reconciliations to comparable GAAP measures can be found in our earnings release and supplemental financial data.

I'll now turn the call over to Eric.

**Eric Bolton**
Thanks Tim. I appreciate everyone being on our call this morning.

Operating results for the third quarter were in line with our expectations and reflect continued strong leasing demand across the portfolio. In addition, with our merger integration process now largely complete, results are beginning to reflect the benefits of enhanced execution on the legacy Colonial portfolio, as well as the benefits of increased scale impacting the combined portfolio.

For the quarter, pro forma same store revenues increased 3.6% as compared to prior year and effective rent growth was 3.2%. Encouragingly, when considering just the leases written during the third quarter, pricing was on average 4.8% higher as compared to the prior year, well ahead of the cumulative rent growth on all the in-place leases during the quarter. Occupancy remained strong with quarter-end physical occupancy for the entire portfolio at 96.3%, putting us in a good position for the traditionally slower leasing activity during the winter months.

Resident turnover continues to run below long-term average with move-outs during the third quarter down 7% on a proforma same store basis when compared to the prior year. Move outs to home buying declined a significant 14% when compared to the third quarter of last year.

While new supply continues to come on line in a number of markets, job growth across most markets has been sufficiently strong to support positive absorption and solid rent growth. While there are going to be pockets of excess supply relative to demand in some sub-markets, I expect this to continue to be the exception and not a wide-spread concern. As the economy continues to show slow recovery and new construction activity picks up, we believe these trends will be positive for job growth and demand for rental housing. Construction and construction related industries, including single-family construction and an improving housing market, have typically been a boost to the economy in the Sunbelt markets. One of our best years of rent growth in our 20-year history was in 2007 when the single-family housing market was at a very robust level. Absent a slip in the recovery of the job markets, we expect continued solid leasing fundamentals and rent growth into next year.

As mentioned, third quarter results reflect the growing impact of the merger opportunities we have previously discussed. After closing the merger on October 1st of last year, we began executing on a number of changes to onsite practices and policies within the legacy Colonial portfolio. Most of these changes required the reworking and consolidation of various systems and software conversions, while some changes were a matter of retraining our associates and retooling a number of operating processes. It can take two or three quarters for the impact of these sorts of changes to show in reported results. Comparing the legacy Colonial proforma same store portfolio on year over year basis, during the third quarter we improved the NOI operating margin on these properties by 250 basis points. Changes made ranged from how we execute with our revenue management system in establishing pricing targets and exposure tolerances to how we approach property staffing and unit turn activities.

In addition to the operating upside within the legacy Colonial portfolio, our merger transaction also created a number of benefits resulting from our expanded platform size and scale. This, of course, benefits both the legacy Colonial portfolio as well as the legacy MAA portfolio. When comparing the NOI margins for the same store legacy MAA portfolio for the third quarter on a year-over-year basis, we captured a 130 basis point improvement in performance. We reworked a number of national contracts for various products and services earlier this year, and those renegotiated pricing terms have begun to more actively work their way through our operation and have a positive compounding effect on results through the busy summer leasing season.

As we continue to harvest these opportunities as well as execute on the redevelopment opportunity within the legacy Colonial portfolio, we continue to feel good about capturing the upside in NOI operating synergies, as well as the G&A synergies, that we previously identified in our merger transaction.

As outlined in the earnings release, we remain very busy on the transaction front. We've completed our planned apartment property sales for the year and are substantially through the disposition of the commercial properties that were acquired as part of our merger. You'll note that we have increased our guidance for the year surrounding acquisitions as we have a number of properties currently under contract to buy and expect to close most of these by year-end. As new development activity has picked up in a number of markets, we've seen a noticeable increase in deals being brought to market and are encouraged this pattern will continue into next year. This should support our efforts to continue with an active program of recycling capital. In total, at the mid-point of our guidance range, we expect to sell just over $300M of properties this year and expect a similar volume of activity in 2015.

We also continue to make good progress on leasing our existing new development and lease-up pipeline and expect to have full productivity of most of these deals in 2015. We are currently negotiating a couple of additional pre-purchase opportunities and would expect to re-load our development pipeline, although at a reduced level, over the next few months as another source of opportunity for recycling capital.

That's all I have in the way of opening comments and I'll turn the call over to Al.

**Al Campbell**
Thank you Eric, and good morning everyone. I'll provide some additional commentary on the company's third quarter earnings performance, balance sheet activity, and finally on updated earnings guidance for the year.

FFO for the quarter was $103.8 million, or $1.31 per share. Core FFO, which excludes certain items, primarily merger & integration costs, FMV adjustment for debt assumed, and debt extinguishment costs, was $101.6 million, or $1.28 per share, which was $0.07 per share above the mid-point of our previous guidance. The results were supported by a solid performance from our proforma same store portfolio, which produced NOI growth in-line with our strong expectation for the back half of the year. G&A costs were about $0.01 per share favorable to expectations for the quarter, a portion of which is timing related.

During the quarter we earned a promote fee associated with the wrap-up of our Fund II joint venture. The total fee earned was $4.8M, with $2.5M, or $0.03 per share, recognized in FFO, and with the remaining portion related to gains on properties acquired from the JV applied to our investment basis in those properties. Additionally, we made a $0.03 per share adjustment to interest expense from a non-cash accounting adjustment related to four interest rate swap contracts acquired in the merger with Colonial. These two items combined to produce the remaining $0.06 per share of the variance to our expectations for the third quarter.

Our proforma same store portfolio produced 6.8% NOI growth over the prior year, based on a 3.6% growth in revenues and an 80 bps decline in operating expenses. As Eric mentioned, solid pricing performance continued through the third quarter, producing 3.2% growth in effective rents, with the remaining 40 bps of growth coming primarily from higher average occupancy during the quarter. Physical occupancy for the proforma same store portfolio ended the quarter at a strong 96.4%, positioned well for the fourth quarter.

The decline in operating expenses was primarily related to reductions in personnel, repair and maintenance, and insurance costs, as compared to the prior year, all areas where we have begun to see benefits from the merger. Utilities and real estate tax expenses both increased during the quarter, offsetting a portion of these declines.

With the acquisition of the remaining two-thirds of Verandas at Southwood, the Fund II property located in Tallahassee, Florida, total acquisition volume year-to-date was $178 million. As Eric mentioned, we're currently pursuing additional acquisition opportunities and have accordingly increased our guidance to a range of $275 to $375 million for the full year, a $75 million increase at the midpoint.

We also sold five wholly-owned multifamily communities during the third quarter, containing 2,238 units, for total gross proceeds of $115 million. These sales completed our 2014 multifamily disposition plans, which produced total gross proceeds of $158 million and recorded gains on sales of $42 million for the year. The average cap rate (based on trailing NOI, a 4% management fee, and total capex) was 5.7% for the eight properties sold in 2014.

Construction and lease-up of our development pipeline continues to progress well. During the third quarter, we funded an additional $11.4 million of development costs primarily toward the two remaining construction communities, 220 Riverside, located in Jacksonville and Colonial Grande at Bellevue II, located in Nashville. Also during the quarter, two lease-up communities, Colonial Reserve at Frisco Bridges, located in Dallas, and Seasons at Celebrate Virginia II, located in Fredericksburg, reached full stabilization which we consider greater than 90% occupancy for 90 days). We had four communities remaining in lease-up at the end of the quarter, with an average ending occupancy of 94%. All four are on track to reach full stabilization during the fourth quarter.

During the third quarter we also continued to capture balance sheet and financing benefits from the recent merger. We amended the agreement for a $250 million term loan acquired from Colonial to reflect the strength of the combined balance sheet and current market pricing. The amended loan, which matures in August 2018, has a new credit spread which is 65 basis points below the prior agreement at the current credit rating for the combined company.

At the end of the quarter our balance sheet remains in great shape. Total Company leverage, based on market cap, was 39.7%, the fixed charge coverage ratio was 4.1 times, and our total debt to Recurring EBITDA was 6.2 times. Also, we have only $24 million of remaining funding commitments for our development pipeline, with $584 million of total cash and credit available under our line of credit at quarter-end.

Finally, based on the third quarter performance we are increasing our earnings guidance for the full year. We now expect Core FFO for the full year to be in a range $4.87 to $4.99 per share, which is $4.93 at the mid-point. We continue to expect Proforma Same Store NOI to range from 4% to 4.5% for the full year.

Core AFFO for the full year is now expected to be $4.12 to $4.24 per share, which represents about a 70% dividend payout at the mid-point.

Now I'll turn it over to Eric for closing comments

**CLOSING COMMENTS:**

**Eric Bolton**
It was good quarter for MAA as the work over the past year in integrating the legacy MAA and Colonial operations is wrapping up and the benefits surrounding the merger are increasingly reflected in our results. We're encouraged with the leasing conditions across the portfolio and our team is focused on continuing to execute on the various operating improvements that have been made. We're making steady progress on recycling capital and continuing to enhance portfolio quality and future internal growth prospects for the company. MAA's balance sheet is in terrific shape and we have ample capacity to execute on our plans moving forward.

I want to thank all our MAA associates for their hard work and extra effort surrounding our merger over the past few quarters. Thanks to your hard work and successful integration of our platforms, our consolidated operating and reporting systems are in great shape and the company is well positioned as we head into 2015.

That's all we have in the way of prepared comments and Priscilla we'll now turn the call back to you for Q&A.