



CONFERENCE CALL TRANSCRIPT: 3Q2015

October 29, 2015 9:00 AM CDT

Leslie Wolfgang

Good morning. This is Leslie Wolfgang, Corporate Secretary 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.

When we reach the question & answer portion of the call, I would ask for everyone to please limit their questions to no more than two, in order to give everyone ample opportunity to participate. Should you have additional questions, please re-enter the queue or you are certainly welcome to follow up with us after we conclude the call. Thank you.

I'll now turn the call over to Eric.

Eric Bolton

Third quarter performance was strong with record high performance in both Core FFO and AFFO per share. The results were driven by record high effective occupancy and solid rent growth producing an 8.1% increase in same store NOI on top of last year's very solid NOI growth of 6.8%.

After a busy couple of years of merger and integration activities, the MAA team has our operating and reporting platform in a strong position. I want to express my thanks and appreciation for their hard work and tremendous results.

Leasing conditions across our Sunbelt markets continue to support high occupancy and solid rent growth. We believe our strategy in diversifying capital across this high-growth region, with a product and price point focused on serving a broad segment of the rental market, enables MAA to capture the strong demand of the region, while mitigating, to some degree, new supply pressures. We continue to see positive leasing momentum across the portfolio. Job growth in most of our markets, particularly in the large market segment of the portfolio, coupled with manageable levels of new supply, particularly in our secondary markets, should combine to produce another year of positive leasing and pricing trends in 2016.

As outlined in a recently published report by the Urban Land Institute on the Gen Y generation and their housing preferences, positive demographic trends should continue to generate growing demand for apartment housing, particularly in our southeastern and Sunbelt markets. As outlined in the ULI study, a clear majority, or 62%, of this large renter demographic identify themselves as residing in the south and west. Interestingly, the Millennial group also describe themselves as being essentially equally weighted in their focus on living in the city versus living in the suburbs. And importantly, only 13% of the Millennial generation, according to ULI's study, identified themselves as living in or near downtown areas. In our southeastern markets, it's important to remember that a lot of the employment centers and more appealing entertainment venues that create proximity demand for apartment housing are often located in more suburban or satellite municipalities and not in the downtown CBD or heavy urban submarkets. And further, with the median rent for the Gen Y group at \$925 per month, per the ULI study, we believe our product holds appeal in terms of price point and, as a result, is well-positioned to attract this large renter demographic. Overall, we continue to believe MAA's focused portfolio strategy reconciles very well with this growing renter profile and supports our goal to deliver superior full cycle performance.

The meaningful repositioning that we've accomplished with the portfolio over the past five years is making an increasing impact. As we've continued to recycle capital from some of our older investments and captured attractive internal rates of return upon sale, we've been able to repopulate the portfolio with newer properties that have enabled us to capture steady improvement in NOI margins, particularly on an after-capex basis. Over the past five years MAA's same store NOI margin, on an after capex basis, has improved 590 basis points. We expect to capture continued improvement in margins as our lease-up pipeline, new development pipeline and redevelopment pipeline continue to drive higher margin performance into the same store portfolio.

On the transaction front, robust deal flow and strong investor appetite continues to generate a lot of activity, along with aggressive pricing. We have a number of opportunities we are reviewing and continue to remain patient and disciplined with our underwriting. As you'll note in our updated guidance, we have pulled

back a little on the volume of acquisitions that we expect to complete this year, but I continue to believe that more attractive buying opportunities will emerge as we work through the cycle. As Al will detail in his comments, through a combination of asset sales, internally generated free cash flow, reworking our credit facility and further deleveraging the balance sheet, we have added more strength to the balance sheet and meaningfully expanded the company's external growth capacity. We remain poised to execute on attractive opportunities as they emerge.

That's all I have and I'll now turn the call over to Tom.

Tom Grimes

Thank you Eric and good morning everyone. Revenues for the quarter grew 6.1% over the prior year and 2.3% sequentially. Our record results were driven by a year-over-year increase in revenue per occupied unit of 5.1% to \$1,123 and a 90bps increase in average physical occupancy. October trends continue to be steady. Our 60-day exposure, which is current vacancy plus all notices for a 60-day period, is just 7.1%, down 70bps from the same time last year. October blended rents on a year-over-year basis are up 4.8%.

Overall expenses remain in line, up just 3%. The only line item that ran ahead of expectations was our personnel cost as the strong revenue results are driving higher than expected performance-based compensation. Personnel costs less incentives were up just 2.2%.

On the market front, the vibrant job growth of the large markets is driving strong revenue results. Eleven of our thirteen large markets exceeded 5% revenue growth. They were led by Atlanta (8.9%), Orlando (8.8%), Phoenix (7.9%), and Ft. Worth (7.2%). The secondary markets, which have lower supply pressure, achieved 5.2% revenue growth. In these markets we are benefiting from improved job growth as well as a sophisticated operating platform that has competitive advantages across our footprint and markets. Revenue growth in Greenville (7.5%), Charleston (7.3%), Savannah (6.5%), and Jacksonville (6.1%) stood out.

Turnover for the quarter was again down, decreasing by -1.7% over prior year and down 100bps on a rolling twelve month basis to 53.3%. Move-outs to home buying were just 19.1% of total move-outs and well below historic norms. Move-outs to home rentals were down 6% and represent less than 8% of our total move-outs. Our focus on minimizing the time between occupants again paid off. The improvement in the average days vacant helped drive the record average physical occupancy for the quarter to 96.6%.

Year to date we have completed 4,209 interior unit upgrades, 2,300 of which were on legacy CLP communities. We are on pace to redevelop 5,000 units this

year and expect the mix to favor the legacy CLP portfolio. As a reminder, on average, we spend \$4,500 per unit and receive a \$100 rent increase over a comparable non-renovated unit, which generates a year-one cash return of well over 20%.

Our four active lease-up communities are performing well. 220 Riverside is 70% occupied and 84% leased. It is on schedule to stabilize in the second quarter of 2016. Colonial Grand at Bellevue II and Retreat at West Creek are 92.3% and 94% occupied and will both stabilize in the fourth quarter. Finally, our newest acquisition in lease-up, SkySong in Scottsdale, is 89% occupied and on schedule to stabilize in the first quarter of next year.

On the customer service front, our “recommend score” on ApartmentRatings.com (which is currently the dominant rating site for multifamily reviews) improved for the sixth straight quarter.

With Eric’s comments about Millennials in mind we invite you to take a look at our redesigned website. This platform was built to continue our appeal to Millennials and the way they prefer to search. Our URL structures and content management system were tweaked to strengthen our search engine strategy. Simply put this means our website shows up higher on their search list without paying for higher placement. Once the website was improved our page views increased by 5 times which gives us more leads at a lower cost per lead. In addition I think you will find it visually bold and easy to navigate.

Al Campbell

Thank you Tom and good morning everyone. I'll provide some additional commentary on the company's third quarter earnings performance, balance sheet activity, and on the revised guidance for the full year.

FFO for the third quarter was \$1.44 per share. Core FFO, which excludes certain non-cash and non-routine items was \$1.38 per share. Recurring capital expenditures for the quarter were \$15.8 million, or \$0.20 per share, which produced Core AFFO of \$1.18 per share, providing strong coverage of our \$0.77 per share quarterly dividend. For the full year, Core AFFO grew 11.3% over the prior year.

The outperformance for the quarter was primarily produced by same store NOI growth, driven by record high average occupancy levels, 90bps above prior year, and continued strong fee collections. Favorable real estate tax appeals and reduced insurance reserves related to claims experience also contributed to the strong earnings performance.

During the third quarter, we acquired two new communities for a total investment of \$86.6 million. These purchases bring our full year investment in acquisitions to \$244.4 million for five new communities, containing 1,409 units.

We also funded an additional \$10.5 million of development costs on our four communities under construction during the quarter, leaving only \$54 million of the \$120 million total expected cost to be funded. We expect NOI yields in the 7.0% to 7.5% range on these communities once completed and stabilized.

We also invested \$8.2 million in our interior renovation program during the quarter, bringing our full year investment in the program to just over \$19 million for the 4,209 units renovated. As Tom mentioned, we continue to capture strong rent increases, above non-renovated units, which are projected to produce unleveraged returns of over 14%.

During the third quarter, we sold three communities for gross sales proceeds of \$121 million, and recorded book gains of \$54.7 million. These three sales bring YTD dispositions to 21 properties, averaging 26 years of age, for \$354.3 million gross proceeds, producing \$190 million of recorded gains. The average cap rate for these dispositions was 5.8% (based on LTM NOI less a 4% management fee and actual capex), which produced an average 14.1% return on our invested equity over the full life of these investments.

Our balance sheet ended the quarter in a very strong position, with leverage levels continuing to decline and coverage ratios growing further. At quarter end, our leverage, defined as Total Net Debt to Gross Assets, was 39.9%, 140bps below the prior year, while our Debt to recurring EBITDA was only 5.76 times, a record low for the company. Our recurring EBITDA continues to grow and reflect the quality of our earnings profile, covering our fixed charges 4.23 times.

Following the end of the quarter we recast our unsecured revolving credit facility, increasing our borrowing capacity to \$750 million (from \$500 million), extending the maturity to 4 ½ years and improving the terms to reflect our stronger credit profile. This new credit facility, supported by a 14 member bank group, provides significant liquidity and growth capacity for the company. In conjunction with the new credit facility, we amended a \$150 million term loan, also improving the terms and extending the maturity date.

For the current year, we expect to produce \$80 to \$85 million of internal “free cash flow”, which is essentially Core FFO less all capex and common dividend payments. This is expected to grow to just over \$100 million for 2016. Given the free cash flow production and the completed dispositions, our 2015 plans do not include a need for new equity. We currently have over \$420 million of total cash and credit available under our credit line, and we expect to end the year with our leverage about 100bps below prior year-end levels.

Finally, due to the strong operating performance during the third quarter, we are raising our guidance for Core FFO and AFFO for the full year. We're now projecting Core FFO for the full year to be \$5.39 to \$5.49 per share, or \$5.44 at the mid-point, representing a 9.0% growth over the prior year. Core AFFO is now projected to be \$4.71 to \$4.81 per share, or \$4.76 at the mid-point, representing an 11.2% growth from the prior year.

Same store NOI growth is now expected to be 6.0% to 7.0%, based on revenue growth of 5.0% to 6.0% and expense growth of 3.5% to 4.5%. Our expected acquisition volume is now \$300 to \$400 million.

I'll now turn the call over to Eric for closing comments.

Eric Bolton

Thanks Al. MAA's strong performance this year reflects both the favorable leasing conditions across our regional footprint, as well as the benefits from our merger with Colonial Properties that closed two years ago this month. The value proposition that we identified at the time we announced the merger, including both stated expense synergies as well as incremental revenue opportunities, have been fully realized and are on track to be exceeded.

We believe we have the portfolio, the operating platform and the balance sheet, all well-positioned for what we expect to be both continued favorable leasing conditions and increasing opportunities to capture new value growth as we head into 2016.

That is all we have in the way of prepared comments, so Kevin, we will now turn the call back to you for questions.