



CONFERENCE CALL TRANSCRIPT: 4Q2015

February 4, 2016 9:00 AM CST

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.

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

MAA wrapped up calendar year 2015 with another quarter of strong performance. Importantly, we expect the favorable leasing conditions and trends supporting record high occupancy and solid momentum in rent growth to continue in 2016. As outlined in our earnings release, our forecast for MAA for the coming year is defined by continued record occupancy results, consistent with what was captured in 2015, and rent growth that is also consistent with the strong momentum from last year and that remains well above long-term averages. Operating expenses are expected to remain well in check, with real estate taxes being the only line item driving any pressure and reflecting the continued strong valuation and leasing fundamentals that are supporting the apartment market.

During the fourth quarter we captured positive pricing momentum across the portfolio, on both a year-over-year and sequential quarterly basis. Tom will provide you with more details surrounding leasing conditions across our markets, but overall we believe the supply and demand dynamics across our high-growth Sunbelt region, coupled with a portfolio that is uniquely diversified across both Large and Secondary Markets, and that offers a price point appealing to the largest segment of the rental market, will drive solid results in 2016.

As noted in yesterday's earnings release, we were successful in securing a couple of acquisitions in the fourth quarter, both of which have an efficient and accretive phase II benefit to them which enable the deals to work within our disciplined underwriting model. We expect the transaction market in 2016 will be similar to 2015 with robust transaction activity fueled by a high level of new development and lease-up projects being brought to market, with a continued high level of investor and buyer interest supporting current valuations. We remain disciplined in our approach and have forecast in 2016 a comparable volume of acquisitions and new development funding as compared to 2015 that we plan to match-fund with disposition activity and internally generated free cash flow.

With the start of expansion at our newly acquired Denton property in Kansas City, we now have \$117 million of new development underway with each of the five projects representing highly accretive phase II expansions of existing successful properties.

During 2016 we also anticipate another active year of redevelopment through our very accretive kitchen and bath remodeling program.

AI will recap for you the changes in our balance sheet and transactions completed in the fourth quarter which further expands our growth capacity. As noted in our earnings release, through a combination of the capital recycling completed last year and the free cash flow now being generated, the balance sheet was further deleveraged in 2015 with debt to market cap at 32.2% by year-end. We anticipate continued strengthening of the balance sheet in 2016. In summary, we believe MAA's balance sheet is well positioned for future opportunities as they emerge.

Before turning the call over to Tom I want to say to all our MAA Associates how much I appreciate all of your hard work and tremendous results in 2015. Thanks to your efforts, MAA produced top-tier total investment returns for our shareholders in calendar year 2015 and we are well positioned to continue our legacy of out-performance over the full cycle as we head into 2016.

Tom Grimes

Thank you Eric and good morning everyone. Our fourth quarter NOI performance of 7.3% was driven by revenue growth of 5.4% over the prior year. We have good momentum in rents and saw effective rents increase 4.4% on a year over year basis and 70bps sequentially. Strong average physical occupancy contributed 70bps over the prior year.

Overall expenses remain in line, up just 2.4%. Expense discipline has been a hallmark of our operation for years. Our industry leading initiatives such as our vendor owned inventory shop stocking program which will be completed this year have allowed us to keep the expense line consistently in check.

January demand trends continue the positive momentum. Average physical occupancy of 96.1% ran 94 bps ahead of last year. Our 60 day exposure, which is current vacancy plus all notices for a 60 day period is just 7%. This is 120bps stronger than the same time last year. January blended rents on a year over year basis are up 5%. Occupancy and exposure at the critical beginning of the year are better than we have seen in recent years.

On the market front, the vibrant job growth of the Large Markets is driving strong revenue results. They were led by Orlando, Fort Worth, Atlanta and Phoenix.

The Secondary Markets achieved 4.4% 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 Charleston, Greenville, Savannah and Jacksonville stood out.

As mentioned above, momentum is strong across our markets with occupancy, rent growth and exposure all showing positive trends. Our market worry bead is Houston which represents just 3.5% of our portfolio. We will continue to monitor Houston closely and protect occupancy in this market. Turnover was down - 7.5% for the quarter and down 180bps on a rolling twelve month basis to 52.5%. Move-outs to home buying were down 100bps and remained below historic norms. Move-outs to home rentals were down 6% and represent just 7% of our total move outs. Our focus on minimizing the time between occupants again paid off. The improvement in the average days vacant between occupants for the quarter of 2.5 days helped drive the fourth-quarter-record, average physical occupancy to 96.1%.

During 2015, we completed 5,781 interior unit upgrades, 3,200 on legacy Colonial communities. We expect to redevelop 5,000 units next year and expect the mix to continue to favor the legacy Colonial portfolio. As a reminder, on average we spend \$4,500 per unit and receive a \$95 rent increase over a comparable non renovated unit, generating a year one cash return of well over 20%.

Our active lease-up communities are performing well and we completed construction at 220 Riverside in Jacksonville in the fourth quarter. As you will notice in our release, we moved the stabilization of this community up to the first quarter of 2016 rather than the second quarter because of a better than planned lease-up supported by rents above proforma. Colonial Grand at Bellevue II and Retreat at West Creek I both stabilized on schedule in the fourth quarter. Stations Square at Cosner's Corner II and Cityscape at Market Center II are currently 67.5% and 82.1% leased and expected to stabilize in the 4th and 3rd quarters of this year respectively

We ended 2015 in strong fashion and are well positioned for 2016.

Al Campbell

Thank you Tom and good morning everyone. I'll provide some additional commentary on the company's fourth quarter earnings performance, balance sheet activity, and finally on initial guidance for 2016.

The record occupancy levels, continued pricing momentum, and solid expense control during the fourth quarter produced record levels of Core FFO per share for both the quarter and the full year 2015. Core FFO, which excludes certain non-cash and non-routine items was \$1.45 per share, representing a 10% increase over the prior year. Recurring capital expenditures for the quarter were \$8.6 million, or \$0.11 per share, which produced Core AFFO of \$1.34 per share, providing strong coverage of our \$0.82 per share quarterly dividend.

Core FFO for the full year was \$5.51 per share, also representing a 10% increase over the prior year. Core AFFO for the year was \$4.80 per share, representing a 12% increase over the prior year.

The outperformance for the quarter was primarily produced by same store NOI growth, driven by continued record high average occupancy levels during the quarter, 70bps above prior year. Operating expenses also remained well under control during the quarter, increasing only 2.4% over the prior year, with favorable real estate tax appeals providing some benefit during the quarter.

During the fourth quarter, we acquired two new communities for a total investment of \$79 million, including the land parcels for two phase II expansions, which were both started during the quarter. These purchases bring our full year acquisition investment to \$327 million, for seven new communities, containing 1,782 units.

We also funded an additional \$13.6 million of development costs for the five communities under construction during the quarter (all phase II expansions), leaving \$74 million of the \$117 million total projected cost to be funded as of

year-end. We expect NOI yields in the 7.0% to 7.5% range for these communities once completed and stabilized.

We also invested \$8.3 million in our redevelopment program during the fourth quarter, bringing our full year investment in the program to about \$31 million. We continue to capture rent increases of 10% above non-renovated units in this program.

During the fourth quarter we completed several important financing goals for the year. 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. We also refinanced a \$150 million term loan, improving the rate by 25bps, extending the maturity, and modifying terms to be consistent with our new credit facility. Of course we also executed a very successful bond issuance during the fourth quarter, issuing \$400 million of ten year notes at a coupon rate of 4.0% priced at 98.99%, which completed our refinancing of 2015 debt maturities. We were very pleased with the investor support and execution of the issuance, which we think and believe provides further confirmation of the strength of our balance sheet.

At year-end, our leverage, defined as Net Debt to Gross Assets, was 190bps below the prior year, at 40.6%. Our recurring EBITDA continues to grow and reflect the quality of our earnings profile, covering our fixed charges about 4.5 times. At year-end 96% of our debt was fixed or hedged against rising interest rates, at an average effective rate of 3.8%, with well laddered maturities averaging 5.0 years. We also had over \$700 million of total cash and credit available at year-end.

Finally, we did provide initial earnings guidance for 2016 with the release. Core FFO is projected to be \$5.68 to \$5.88 per share, or \$5.78 at the mid-point, based on average shares and units outstanding of about 79.6 million. Core AFFO is projected to be \$4.98 to \$5.18 per share, or \$5.08 per share at the mid-point, representing about a 6% growth over the prior year.

The primary driver of 2016 performance is expected to be same store NOI growth, which is forecasted to be 4% to 5%, based on a 3.75% to 4.25% growth in revenues and a 2.75% to 3.75% growth in operating expenses. Our revenue projections include expectations of continued record high occupancy levels (avg 96.1%) through 2016, combined with continued rental pricing above long-term trends, similar to 2015 levels (ranging 4% to 4.5%). We expect operating expenses to remain well under control, with real estate taxes continuing to present the only area of pressure, as the strong operating performance pushes valuations higher.

We expect acquisition volume to be similar to 2015 with \$300 to \$400 million of purchases included in our projections. We also expect to fund an additional \$50

to \$60 million of development costs toward the completion of the five communities under development. We plan to essentially match-fund these investments with \$200 to \$300 million of multifamily dispositions, \$30 to \$60 million of commercial asset and land dispositions, and with \$90 to \$95 million of internally generated free cash flow.

Given the timing required to recycle assets along with the initial loss of NOI yield, our forecast for the full year includes \$.04 to \$.06 per share of dilution related to the 2016 disposition plans. Our current plans do not include the need for new equity during 2016, and we expect to end the year with our leverage to be below the 2015 year-end level.

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