# CONFERENCE CALL TRANSCRIPT: 3Q2018

**November 1st, 2018 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, Tom Grimes, our COO, and Rob DelPriore, our General Counsel.

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 forward-looking statements section in yesterday's earnings 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. A presentation of the most directly comparable GAAP financial measures, as well as reconciliations of the differences between non-GAAP and comparable GAAP measures, can be found in our earnings release and supplemental financial data, which are available on the "For Investors" page of our website at www.maac.com.

I'll now turn the call over to Eric.

**Eric Bolton**

Thanks Tim and good morning. The demand for apartment housing across our footprint remains strong and shows no signs of moderating. High demand and low resident turnover have supported our ability to capture strong occupancy and positive rent growth despite the high levels of new supply in several of our markets.

On a blended lease-over-lease basis, as compared to the prior in place leases, rents grew by 3.1% in the third quarter. This is 60 basis points better than the same time last year. While we've not yet wrapped up our budgeting efforts for next year, we do expect that strong demand will offer the opportunity for continued positive momentum in rent growth during 2019 despite the new supply headwinds.

As part of our fall budgeting process we perform a robust and detailed assessment of the new supply outlook across our portfolio. Supplementing the information from third-party research, we do a property-by-property and immediate submarket review to consider specifically how new supply is likely to pressure leasing across our portfolio in the coming year. Tom will share more in his comments, but our early assessment is that the 2019 new supply pressures, at a portfolio level, will likely moderate slightly from the volume of new deliveries in 2018 and support continued improvement in new lease rent growth in 2019.

We continue to capture good results from the various expense synergies and new initiatives coming out of our merger with Post Properties, primarily in the area of repair and maintenance costs. As we approach the two-year mark since our merger, we do expect that we'll begin to see some of the initial lift from expense synergies start to moderate on a year-over-year basis as we move into 2019.

During the quarter we did see some pressure from real estate taxes and hurricane clean-up. Al will speak to this in his comments but with cap rates compressing further over the past year, as our annual tax bills started coming in over the last couple of months, a corresponding impact on real estate taxes has been evident.

As noted in our updated guidance for this year we've pulled down our expectations for property acquisitions and do not expect to close on anything between now and year-end. Significant pools of private capital continue to aggressively bid up pricing. As it has been for years, our capital deployment protocols are built around a goal to be earnings accretive in fairly short order. Today's pricing for stabilized properties, or even those still in initial lease-up, are rarely meeting our earnings accretion goal at this point.

On the development front we're continuing to find opportunities that we believe will offer attractive and accretive NOI yields. As noted in our earnings release, during the third quarter we started construction on a phase II expansion at our Sync36 property in Denver bringing our current development pipeline to $148M. We currently have additional sites either owned or under contract in Denver, Houston, Ft. Worth and Orlando that are currently in pre-development. We hope to get started with these projects at some point during the coming year.

In addition to this development pipeline, we have another five properties representing over 1,600 units currently in their initial lease-up and all performing in line with our expectations.

In addition to our new development and lease-up pipelines, we continue to capture strong returns on our redevelopment pipeline with over 6,500 units redeveloped so far this year generating very attractive returns on capital. We have another roughly 20,000 units that we expect to redevelop over the coming two to three years.

In summary, the revenue momentum that we expected from improving pricing trends this year and the work completed towards stabilizing our operating platform are all coming together as expected.  It has been a busy and transformative two years for MAA as our team worked to integrate the former Post portfolio, operations and associates.  We've retooled or replaced essentially every system and much of the technology platform of the company.  As you might imagine, this has created a lot of demands on our team while also fighting the headwind from higher levels of new supply.  I'm happy to report that the systems and associated policy and procedural transformation work, along with all staffing changes and integration activities, are now complete.  The MAA operating platform and the balance sheet are stronger than ever.  I'm proud of the work and results accomplished by our folks.  We're very excited to now move forward with more opportunity to grow higher value from our existing portfolio of properties.  Our lease-up, development and redevelopment pipelines are also all poised to drive higher value over the next couple of years.  We look forward to finishing 2018 on a strong note and continuing the momentum over the coming year.

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

**Tom Grimes**

Thank you Eric and good morning everyone. Our operating performance for the third quarter came in as expected with building momentum in rent growth, continued strong occupancy and improving trends that support our outlook for the year.

The integration work on the operating platform was evident in our leasing momentum during the quarter.  We saw the blended lease-over-lease performance of the combined portfolio grow 3.1% in the third quarter which is 60bps points higher than the same time last year.  This brought our year to date blended rent increase up to 2.8% which positions us to be well within the 2.25% to 2.75% blended rent increase range for the year that we established to meet our revenue guidance range.

This steady positive trend in blended pricing drove our sequential average effective rent per unit up 130bps from Q2 to Q3.  This is the highest sequential increase we have seen since the Post merger. As a result, revenues also increased 130 bps from second quarter to the third quarter.

While elevated supply levels have pressured rent growth in several of our markets, particularly Dallas and Austin, we are still seeing good revenue growth in a number of our other markets. Phoenix, Orlando, Richmond and Jacksonville were our strongest revenue growth markets.

Expense performance has been steady in both portfolios. In addition to the real estate tax pressure and storm costs, personnel and marketing were affected by a 4% increase in move-ins during the quarter. Despite these pressures, overall expenses within the same store portfolio were up just 2.3% for the quarter.

The favorable trends continued into October. All key indicators are trending ahead of last year. Overall same store October blended lease-over-lease rates were up 2.3% which is 90bps better than October of last year. Average daily occupancy for the month was a strong 96.1% which is 20bps better than October of last year. Our 60-day exposure, which represents all vacant units and move-out notices for a 60-day period, is 6.1% which is 50bps better than last year. We are in good shape as we head into the slower winter leasing season.

Our focus on customer service and retention coupled with strong renter demand continue to drive down resident turnover. Move-outs by our current residents remain low. Move-outs for the overall same store portfolio were down 30bps for the quarter. Move-outs to home buying and move-outs to home renting were essentially flat, representing less than 20% and 7% of our turnover, respectively. On a rolling 12 month basis, turnover remained at our historic low of 49.2%. This steady low level of turnover was achieved while increasing renewal rents by a strong 6.0%.

Momentum is building on the redevelopment program across the legacy Post portfolio. Through the third quarter, we have completed 2,300 units and expect to complete 3,000 this year on the Post portfolio. On average we are spending $8,900 per unit and getting a rent increase that is 11% more than a comparable non redeveloped unit. As a reminder, we have identified a total of 13,000 Post units that have compelling redevelopment opportunity.

For the total portfolio, we have completed 6,500 units and we expect to complete over 8,000 interior unit upgrades for the year. On the legacy MAA portfolio, we continue to have a robust redevelopment pipeline of 9,000 to12,000 units. On a combined basis with the legacy Post portfolio, our total redevelopment pipeline now stands in the neighborhood of 19,000 to 22,000 units.

Our active lease-up communities are performing well and in line with our expectations. Post South Lamar and Acklen at West End stabilized on schedule during the third quarter. Our remaining current pipeline of 5 lease-up properties are all on track to stabilize on schedule.

As part of our budgeting process for 2019 we are taking a deeper look at the supply affecting our markets. We take the third party data and then cross check this supply data with our own asset by asset information. Performance by market will vary, but at this point we believe overall our markets will improve modestly with some decline in deliveries.

Our Dallas and Austin assets are expected to remain challenging with supply levels continuing in the 3% to 4% of inventory range. We expect Charlotte to soften as supply picks up near our assets. We expect the strength in Jacksonville, Orlando, Tampa and Phoenix to continue as all currently show supply decreasing.

While we have not completed our budgeting process, assuming the demand side of the equation remains strong, at this point we expect to see the positive momentum in rents realized in 2018 to continue into 2019.

We are pleased to have the merger integration wrapped up and we are encouraged with the building momentum in revenues. I am proud of the effort and hard work our team has put in over the last two years. We are glad to have this work behind us and look forward finishing well in 2018 and moving on to 2019.

**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 finally on guidance for the remainder of 2018.

As Eric mentioned, overall performance for the quarter was essentially in-line with expectations. FFO of $1.50 per share was in-line with the midpoint of our guidance. Total revenue growth for the same store portfolio of 2.0% for the quarter was primarily produced by a 2.1% increase in Average Effective Rents, which continued to accelerate from the 1.7% increase in the second quarter. Our YTD revenue growth of 1.8% is in-line with our full year guidance, and the strong occupancy levels and blended lease-over-lease pricing performance for the quarter support our expectation of continued acceleration of both Average Effective Rent growth and total revenue for the fourth quarter.

As Tom mentioned, same store operating expenses during the third quarter were slightly impacted by clean-up costs from Hurricane Florence and increased pressure on real estate taxes. These pressures are expected to continue into the fourth quarter, which I will discuss more in a moment. However, despite these pressures, overall operating expense growth of 2.3% remains below our long-term average growth range.

FFO results for the third quarter were slightly impacted by the MTM valuation of our preferred shares, which produced $400k of non-cash expense to the third quarter. Though the valuation has been volatile over the last few quarters, as expected, the third quarter adjustment brings the full year impact to $300k of non-cash expense, which is near our estimate of “no net impact” for the full year.

We completed one development community during the quarter, Post Centennial Park, a high-end community located in Atlanta. We also began the construction on an expansion phase of the community acquired last quarter, Sync36, which is located in Denver. Phase I of this community contains 374 units, which remain in lease-up, and the second phase will add another 79 units which are expected to be completed by the fourth quarter of next year. We now have four communities in active development representing a total projected cost of $148 million. We funded total construction costs of about $13 million during the third quarter, and expect to fund the remaining $102 million over the next 18 to 24 months to complete the current pipeline. We expect a stabilized NOI yield of 6.3% for this portfolio once completed and fully leased.

As Tom mentioned, our lease-up portfolio continues to perform well. During the third quarter, two communities reached full stabilization (which is 90% occupancy for 90 days). At the end of the quarter we had five communities remaining in lease-up, including the recently completed development community, with an average occupancy of 66.9% for the group at quarter end. We expect a growing contribution to our 2019 earnings stream from our lease-up portfolio, as two of the communities are projected to fully stabilize during the fourth quarter of this year, with the remaining three stabilizing during 2019.

Our balance sheet remains in great shape. During the third quarter, we paid off $300 million of our current year debt maturities using capacity under our unsecured line of credit. We have an additional $80 million of debt maturities during the fourth quarter. As previously discussed, we anticipate pursuing additional financing over the next couple of quarters to refinance remaining current year and first half 2019 debt maturities. At the end of the quarter we had over $674 million of combined cash and remaining capacity under our unsecured line of credit. Our leverage, as defined by our bond covenants was only 32.5%, while our Net Debt to Recurring EBITDA*re* was just below 5 times at quarter end.

As noted in the earnings release, we have recorded what we believe are appropriate reserves for defense costs in our Texas late fee class action lawsuits, disclosed in our recent 8-K. We believe that our late fee policy and practices are in line with those of other TX landlords and comply with TX law. In addition, we have adjusted our loss reserves in our third quarter financial statements as a result of significant progress made toward the settlement of two legacy Post Properties lawsuits (DOJ and ERC cases), which were disclosed in previous filings. We don’t plan to provide additional commentary or specific details on any pending lawsuits during the Q&A portion of the call.

Given third quarter performance and updated expectations for the remainder of the year, we are updating certain guidance assumptions. First, we are maintaining our full year guidance range for both same store combined lease-over-lease pricing growth (2.25% to 2.75% for the year) and same store total property revenue growth (1.75% to 2.25% for the year).

We now expect our fourth quarter expense performance to be affected by the un-forecasted clean-up expenses related to hurricane Michael as well as increased real estate tax expense due to specific pressure in Atlanta and Dallas. As final tax information was obtained for the year, very aggressive value increases in Atlanta and millage rate increases in Dallas are expected to impact our portfolio. We will continue to aggressively fight these increases, but are revising our guidance for real estate tax expense for the full year to an expected range of 4% to 5% (a 50bps increase at the midpoint).

The combination of these items produced a revision to our guidance for total same store property operating expenses to an expected range of 2.0% to 2.5% for the full year, and to our same store NOI guidance to a full year range of 1.75% to 2.25%; both representing a 25bps change to the previous guidance ranges.

Other notable changes to our guidance include a reduction in our estimated range of multifamily property acquisitions for the year, as well as projected full year Total Overhead Costs (G&A + Prop Mgmt Overhead Expenses). Given the competitive environment and proximity to year-end, we don't expect to close any additional acquisitions this year. Since our prior projections included primarily lease-up deals heavily weighted in the later part of the year, this change has little effect on our 2018 earnings. Favorable impact from several items, including franchise taxes, insurance costs, legal costs, the timing of final staffing changes related to the recent integration project, and other items produced the expected overhead favorability for the full year. Some of this impact is essentially timing related, as we expect 2019 overhead costs to include less unusual and non-recurring activity as well as more normalized staffing now that our merger and integration efforts are completed.

In summary, net income per diluted common share is now projected to be $1.87 to $1.99 for the full year 2018. FFO is projected to be $5.99 to $6.11 per share, or $6.05 per share at the midpoint. AFFO for the full year is now projected be $5.38 to $5.50 per share, or $5.44 at the midpoint.

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