CONFERENCE CALL SCRIPT
1Q 2019 EARNINGS

May 2, 2019 9:00 AM CDT

Tim Argo

Good morning. This is Tim Argo, Senior Vice President 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.

We are off to a good start for the year as the first quarter's growth in effective rent is the highest that we have captured over the past eight quarters. Resident turnover remains at historically low levels and rent growth on renewal transactions continues to be strong. The increase in combined new and renewal lease rates, on a lease over lease basis, were 240 basis points ahead of the performance in Q1 of last year. We are of course just now entering the important spring and summer leasing season, but we certainly like the trends that we are capturing as the compounding benefit of steady rent growth continues to make a growing and positive impact.

Strong expense control continues to be evident, particularly in the areas of repair and maintenance costs and utility expenses. Our property and asset management teams continue their well-established record of innovation and expanding use of new technology, while also actively leveraging the benefits of the larger scale of our platform.

Beyond these encouraging trends with the same store portfolio, our growing new development portfolio, our current lease-up property portfolio and our redevelopment pipeline all continue to come on line and will make increasing contributions to FFO over the next couple of years.

Our high-growth Sunbelt markets continue to see steady job growth and solid demand for apartment housing. As pressures surrounding high housing costs and related cost of living challenges continue to influence population growth and migration trends across the country, we continue to favor our regional focus. Across our portfolio, average rent as a percentage of monthly income continues to hover in the 20% range, a very affordable relationship. We believe that through the full cycle, our regional markets will drive job growth and a resulting demand for apartment housing that will outperform other regions of the country.

As recapped in our recently published annual report, after two years with a heavy focus on significantly retooling and integrating our operating platform, we believe that MAA is now even stronger and better positioned. We are excited to now be fully focused on capturing the opportunities associated with the enhancements that were made. We look forward to continued positive momentum over the coming year.

I'll now turn the call over to Tom.

Tom Grimes

Thank you Eric and good morning everyone. Our operating performance for the year started off well. We have continued momentum in rent growth, strong average daily occupancy and improving trends.

Effective rent growth per unit was 3.1% for the quarter. This is the fourth straight quarter of improving effective rent growth. For perspective, in the first quarter of 2018 this number was 1.4%. It was 1.7% for the second quarter, 2.1% for the third quarter, 2.4% in the fourth quarter and now up 70bps sequentially. Said another way, in the last year we have doubled our effective rent growth rate. We are pleased with the positive trend of this steady compounding driver of long term revenue growth.

This is of course led by steady momentum in blended lease over lease pricing. Blended lease over lease rents for the quarter were up 3.9%, which is 240bps better than this time last year. Average daily occupancy remained strong at 95.9%.

Expense performance was steady for the first quarter, up just 2.1%. The marketing growth rate stands out in our report but that was a result of a credit in last year's numbers. Adjusting for this anomaly, marketing expenses would be flat with prior year. As a reminder, our annual operating expense growth rate since 2012 has been just 2.4%, well below the sector average.

The favorable trends continued into April. We are on track for another month of strong blended lease over lease pricing. April blended lease over lease rents were up over 4.0%, which is well ahead of the 2.8% posted in April of last year. Average daily occupancy for the month continued at a strong 95.9%. Our 60 day exposure, which represents all vacant units and move out notices for a 60 day period, is 8.4%, which is in line with last year.

On the redevelopment front, in the first quarter we completed about 1,700 units, which keeps us on track to redevelop 8,000 units in 2019. This is one of our best uses of capital. On average we spend $6,100 per unit and achieve an additional 11% in rent, which generates a year-one, cash on cash return in excess of 20%. Our total redevelopment pipeline now stands in the neighborhood of 16,000 to 17,500 units.

The latest market delivery information is in line with our prior forecasts. Job growth in our markets is expected to be 2.1% versus 1.6% nationally. As long as demand remains strong, we expect the positive rent growth will continue to build.

Our teams are pleased to have the work of 2017 and 2018 in the rear view mirror. We are encouraged with the momentum in rent growth and excited to have our transformed platform fully operational.

Al Campbell

Thank you Tom and good morning everyone. I'll provide some additional commentary on the company's first quarter earnings performance, balance sheet activity, and finally on our updated guidance for the remainder of the year.

FFO of $1.58 per share for the first quarter was $0.11 per share above our guidance for the quarter. However, excluding two items not included in our forecast (a gain on the sale of a land parcel and the preferred share adjustment, which we will discuss more in a moment), FFO for the quarter was $1.51 per share, which was still $0.04 per share above the mid-point of our guidance.

Operating results were $0.02 per share favorable to our prior forecast, with positive contributions from both same store revenue and expense performance during the quarter. Continued strong occupancy supported the favorable rental pricing trends outlined by Tom, while favorable repair and maintenance and utilities costs offset continued pressure from real estate taxes during the quarter. The real estate tax expense growth of 6% for the quarter includes the impact of timing of appeals, and we still expect our total costs to grow in the range of 3.75% to 4.75% for the full year.

Favorable performance for interest expense and other income during the quarter, primarily related to our recent bond deal and casualty gains, combined to add the remaining $0.02 per share to FFO for the quarter.

We also sold a small land parcel located in Atlanta during the quarter, which was acquired in the Post merger. The parcel was not a viable development for us and was sold as an alternative use. Given significant uncertainty regarding ultimate closing of the sale, the gain of $0.08 per share was not included in our original guidance for the year. In addition, we incurred non-cash expense of about $0.01 per share during quarter related to the mark to market adjustment of our preferred shares, which consistent with our practice, was also not included in our forecast.

During the quarter we completed a significant portion of our financing plans for the year with the issuance of $300 million in new 10-year public bonds at an effective rate, including the impact of settled swaps, of 4.24%, and with the closing of an additional $191 million of fixed rate mortgages priced at a very attractive 4.43% for 30 years. The proceeds were used to pay down our unsecured line of credit, which will be used to provide the majority of our financing needs for the remainder of the year.

We also continued to make progress on our development pipeline, funding $15 million of construction costs during the quarter. We expect to fully complete two communities this year and also likely start additional projects as part of our $100 to $150 million total projected funding for the full year. We continue to expect the combined stabilized NOI yield on our development pipeline to be in the 6% to 6.5% range.

Our balance sheet remains strong. We ended the quarter with low leverage which is 32.6% debt to total assets and with over 85% of our debt fixed or hedged against rising interest rates at an increased average maturity of eight years. At quarter end we had over $967 million of cash and funding capacity under our line of credit and our current forecast is leverage neutral.

Finally, we are revising our FFO guidance for the full year to reflect first quarter performance, as well as our updated projections for transaction and debt financing plans for the remainder of the year, which are now expected to reduce FFO by $0.03 per share compared to our previous forecast. Also, just as a reminder, we do not forecast any future non-cash adjustments to the valuation of our preferred shares. FFO per share for the full year is now projected to be $6.11 to $6.35, or $6.23 at the mid-point which is an $0.08 per share increase over our previous guidance. We also now expect net income per diluted common share to be $2.19 to $2.43 per share for the full year. We are certainly encouraged with the strong first quarter performance, but we still have the very important busy leasing season ahead of us and comparisons do become a bit more challenging over the remainder of the year. We are maintaining our previous same store guidance, and we plan to revisit these projections with our second quarter earnings release.

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