Mid-America Apartment Communities, Inc.
Second Quarter 2008 Conference Call Comments

Leslie Wolfgang:
Good morning. This is Leslie Wolfgang, Director of External Reporting for Mid-America Apartment Communities. With me are Eric Bolton, our CEO, Simon Wadsworth, our CFO, Al Campbell, Treasurer, Tom Grimes, Director of Property Management and Drew Taylor, Director of Asset Management.

Before we begin I want to point out that as part of the discussion this morning company management will make forward-looking statements. Please 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 can be found on our website.

I’ll now turn the call over to Eric.

Eric
Thanks Leslie. Mid-America’s strong 13% growth in FFO per share during the second quarter was the result of solid operating performance and favorable financing costs. The quarter’s FFO performance of 95 cents per share is the best result we’ve ever posted for a second quarter in our company’s history. Mid-America’s steady performance and growth in FFO per share is a result of several attributes that cause us to feel comfortable that performance will continue to hold up well, despite pressure from a weak employment market. Let me recap a few reasons why we remain comfortable with our positive outlook for 2008 and are optimistic about leasing fundamentals long-term.

First, as the economy regains footing, the Sunbelt Region is going to capture strong growth in new jobs and household formations. Over the long haul, we believe the Sunbelt markets will outperform other regions in creating demand for apartment housing. In addition, our strategy of allocating a portion of Mid-America’s portfolio to more stable income markets, within this high-growth region, provides a level of protection to broad economic slowdowns that will help insulate our NOI performance from severe strain during weak parts of the economic cycle. And of course Mid-America’s lack of portfolio concentration in markets most pressured by vacant condos and single-family housing also goes a long way in ensuring the portfolio will hold up better than most during the current cycle.

Secondly, the strength of our operating platform will help to ensure that Mid-America’s portfolio continues to generate solid performance. We’re confident that our yield management system implemented last year, recent changes in programs for collecting delinquent rent and upgrades made at the start of the year to our inventory management programs will all combine to deliver results that outperform market norms. As an example, you’ll note that same store physical occupancy at quarter end was down slightly by 30 basis points in the second quarter as compared to the same point last year. But
effective occupancy, which is the more meaningful measurement of vacancy loss as it accounts for the vacancy from turnover that occurs during the month, actually improved by 64 basis points in the second quarter. As a result of this increase in effective occupancy, same store vacancy loss declined by nearly 9% in the second quarter as compared to last year. This is a direct result of lower resident turnover and our proactive inventory management system, which reduced the average number of days vacant to 24 days, as compared to 29 days in the second quarter of last year.

One of the other important attributes about Mid-America’s performance that we have consistently worked to develop over the years is a revenue stream that is high quality and recurring in nature. Mid-America’s funds from operations in 2008 is overwhelmingly driven by performance from recurring rental operations at 99% of FFO, as opposed to gains on sales or one time up-front fees. During weak parts of the economic cycle this is a particularly important feature to have. Not only does this high quality revenue profile generate a level of stability in a year of moderating leasing fundamentals, but it of course provides a solid foundation for the future.

The last important attribute that I would point out is the strength of balance sheet enjoyed by Mid-America. We have one of the strongest dividend and fixed charge coverage ratios in the sector. This puts us in a solid position to be more opportunistic in our management of asset sales, as well as in our pursuit of new growth opportunities, without having the pressure of liquidity concerns and the volatility that can come from balance sheets that are not as well capitalized, or those facing significant financing commitment for new development and material refinancing exposures.

Given the solid portfolio and operating platform Mid-America has in place, coupled with strength of balance sheet, we believe the company is in a very good position. And of course, helping to off-set some of the pressure from weaker job growth is lower turnover and the reduced pressure from residents leaving to buy a house. All indications are that the return to more disciplined practices for qualifying for single family mortgage loans, such as a down payment and acceptable credit history, are here to stay. So, on balance, we believe leasing fundamentals in our portfolio are going to hold up well and remain confident that we are headed towards another year of solid growth in NOI and FFO.

As noted in our earnings release, we did experience some moderation in leasing traffic late in the second quarter. While isolated in nature, and as you would expect, associated with those markets facing the most moderation in job growth, we believe the weaker traffic patterns will nevertheless impact our ability to achieve same store pricing growth at a level we had hoped for in the second half of this year. Given this pressure, along with a belief that property taxes are likely going to come in higher than we’d originally expected, we are pulling back a little on our same store NOI growth assumptions for the year to a range of 3.0% to 3.5%. However, largely off-setting this adjustment is better than expected performance in interest and administrative expenses as compared to our earlier forecast.
Simon will walk you through the details of the moving pieces of our updated forecast, but the two take-away points in my opinion are these:

Original expectations for pricing growth in same store assumptions are under some modest pressure as a result of continued weak job growth, but effective inventory management practices, lower interest rates and lower administrative expenses are largely off-setting this pressure.

And, overall FFO guidance is generally intact, with the mid-point right where we began the year, and $0.03 below the mid-point of where we were at the end of the first quarter, as a result of raising more equity than we’d originally forecast as buying opportunities improve.

At the mid-point of guidance, our expectation for FFO growth this year represents a solid 6% growth over last year’s strong performance. And this is being accomplished while at the same time taking actions that are dilutive to the current year to further strengthen the balance sheet, and position the portfolio for more robust earnings in the future. As a reminder, we expect to eat 15 cents of FFO dilution this year in lease-up and new development initiatives as we continue to increase the quality of the portfolio and lay a foundation for future FFO growth.

Frankly, we are excited about where the company is positioned and performance expectations for this year. And the outlook for performance over the next couple of years is very encouraging. Our regional markets are poised to capture significant growth in demand over the next few years, new supply pressure remains muted and will be so for a while, we have $113 million of projects that are in lease up or under construction that will become fully productive over the next year to 18 months, and our redevelopment and unit interior upgrade projects continue to position the existing portfolio for more robust pricing performance. We remain very confident about the long-term prospects for solid internal performance and growth in FFO for Mid-America shareholders.

Of course one of the benefits to the more challenging leasing and financing environment is that we are seeing an improved market for making acquisitions. The best buying opportunities at the moment are associated with new lease-up development, properties in those markets facing pressure from excessive vacant condo and single-family inventory, and those properties that are facing near term refinancing requirements. We closed on another acquisition yesterday and currently have two other acquisition opportunities under contract. Our pipeline is very active. With the additional capital raised to date, coupled with the balance sheet capacity that we began the year with, Mid-America is in a terrific position to take advantage of the improving buyer’s window.

From what we are seeing in the transaction market, we don’t expect a significant shift in cap rates as there continues to be ample evidence of investment capital focused on the sector and of course financing remains available for stabilized properties through both Fannie and Freddie. What makes us optimistic about the ability to secure more deals that meet our investment hurdles is that largely the capital that is now in the market, on both
the equity and debt side, is more disciplined than what we’ve been competing with over the last few years. Given our regional focus, excellent record of performing for sellers, strong relationships, and existing financing agreements in place, we’re confident of our ability to successfully compete in this transaction environment.

**Simon**

Second quarter FFO per share of 95 cents was at the mid-point of our guidance, and a 13% increase over the second quarter of last year. We reported a 1-cent per share gain from the sale of excess land in the second quarter of last year, and without this, the growth in FFO per share was 14%. The strong growth was driven by solid operating results and a continuation of the favorable interest rate environment.

As you’ll remember, we anticipated at the beginning of the second quarter raising $50 million of new common equity for all of 2008. We’d already raised $15 million of this in the first quarter, and then in the second quarter we not only raised the $35 million balance, but nearly another $30 million on top, for a year-to-date total of almost $80 million. The FFO dilution from this additional equity was about 1 cent per share in the second quarter. We’ll discuss our equity needs with the Board later this month, but our current plan is to raise an additional $20 million in the second half of the year; assuming this occurs, we’ll have FFO dilution for the second half year from the $50 million of additional equity of just over 2 cents a share. So, while we were able to meet the mid-point of our second quarter guidance despite the 1 cent of dilution from the incremental equity, we need to modify our full-year guidance by 3 cents to take account of the incremental shares.

The primary reason we’ve sold equity this year is that we believe we’re entering a time when we’ll be able to make some attractive acquisitions, such as the two properties under contract that Eric mentioned. Our objective is to grow net present value per share, and after a long spell when finding acquisitions that are accretive to net present value has been very difficult, we are beginning to see a few more opportunities. We also think the uncertainties and volatility in the capital markets make it a time to have a strong balance sheet, and the equity we’ve raised takes our debt plus preferred as a percent of market cap into the lowest, that is the best third of the apartment sector.

Second quarter, year-over-year same store performance was reasonably solid, but not at the level that we’d anticipated. Some of our markets experienced softer demand; walk-in traffic didn’t seasonally build at the rate we regularly expect. By mid-June we saw that May and June revenue growth was trending weaker than we’d expected, and walk-in traffic ended the quarter down 7% from the same quarter a year ago. Given the strength we’d seen in the first four months, we were surprised that this slow-down occurred, and that it turned out to be more than a one-month phenomenon. This impacted our ability to push rents and fees to the extent we’d anticipated.

Expenses were also slightly above the level we’d projected, partly due to some personnel cost pressures, and in late June we increased our full year accrual rate for real estate taxes
from a 4½% same store increase to 5½% as a result of continued aggressiveness from tax authorities.

We’ve been pleased that our bad debt continues to drop, with net delinquency down from 0.5% in the second quarter of last year to 0.4% of net potential rent in the second quarter of 2008. The number of skips and evicts was down 3% from the second quarter of last year, and the number of people paying after the 15th of the month dropped by 4%. The same-store concession rate dropped from 2.7% to 1.3% of net potential rent, as we migrated towards net effective pricing at most of our properties. We continued to see the number of our residents leaving us to buy a house drop, from 31% of move-outs in the second quarter of 2007 to 25% in the second quarter of 2008, a 21% drop. The number of our residents that left to rent a house continues to be insignificant, rising from 3% to 4% of move-outs. Quarterly turnover on an annualized basis dropped from 67% to 65%.

We’re also pleased that we’ve seen a recovery in walk-in traffic in July, which was up 13% over June, and the best month of this year, and just above July of last year. The number of lease applications was up 38% over June, and 16% over July of last year. But we think it prudent to moderate our same-store forecast growth rate for the year. Our new forecast, with revenue growth of roughly 3%, and NOI growth of 3% - 3 ½%, seems realistic, and given everything that is going on in the economy, pretty good performance.

We had a very successful renewal of our property and casualty insurance on July 1st this year, with $1.3 million of annual savings, or 14% from the expiring policy. Much of the reduction was already included in our forecast of same-store NOI, and the balance is more than offset by the projected increase in real estate taxes.

We’ve targeted four properties for disposition totaling 990 units; they represent a cross-section of small market and older properties that no longer fit our objectives; they’re likely to be the only properties we sell this year. We expect net proceeds of $40 million to $45 million from the sales, and a sale cap rate in the 6 ½% range. We executed the brokerage agreements in July, and preliminary showings to prospective buyers have started.

We completed the acquisition of one property in the second quarter, Providence at Brier Creek in Raleigh-Durham, which is one of the top 10 fastest growing MSA’s in the country. The property has numerous high-end features, and is a great addition to our portfolio. We closed on one additional property yesterday, The Edge at Lyon’s Gate, a 312-unit property built in 2007, and located in the Chandler/Gilbert submarket in the Southeast Valley of metro-Phoenix, which we’ll own on our own balance sheet. This is the second property we own in Phoenix. We have two additional properties under contract and being evaluated, one in Atlanta, and one a ‘busted condo’ in Tampa, both of which we’d own 100%.

Our redevelopment program continues to generate attractive returns, with interior renovations on almost 2,000 apartments completed through the end of June. We plan to redevelop approximately 3,000 units this year, at an average cost of $4,700 per
apartment. In addition, we have six exterior repositioning projects scheduled for this year totaling $2 million. We underwrite these exterior projects to generate the same kind of returns (through additional rental rates) as for our interior renovation.

The two new development projects, Copper Ridge in Dallas, and St Augustine Phase II in Jacksonville are on schedule. Copper Ridge has started lease up, and construction is expected to be completed in October, and St Augustine is expected to start lease up this quarter, with construction scheduled to be completed by the end of the year. NOI yields on the two projects are forecast to average 7 ½%.

Turning to the balance sheet, because of the equity we’ve raised, our leverage (defined as debt plus preferred to total gross assets) dropped by 240 basis points from June of 2007 to 56%. As a percentage of total market capitalization our debt plus preferred is 46%, among the best in the sector, and our fixed charge coverage continued to improve, rising to 2.52 from 2.20 in the second quarter of 2007. At the end of the quarter we had $309 million of unused pre-committed credit available under our Agency and bank facilities, of which $187 million is available under in-place mortgages and an additional $122 million is committed at our existing credit spreads. $265 million of this capacity is under long-term credit facility arrangements with Fannie Mae and Freddie Mac, which was committed at spreads that were set before the current credit crisis. Looking forward to 2009 and 2010, the only debt maturities that we have are some of our swaps and the annual renewal of our bank credit line – in other words, we’re not looking for new funding for any maturities. Without any significant development to fund, we think we’re in a strong position. Early in the quarter we took care of some upcoming maturities, and put in place $100 million of forward swaps, locking in interest rates effective between May and December, all of them favorably priced. We benefit from the fact that 22% of our debt is floating rate (of which a quarter is capped), mostly tied to very attractive Fannie Mae DMBS rates.

As mentioned in the press release, we have put on hold any plans to redeem the $155 million of Preferred H.

Debt costs for moderately-leveraged apartment buyers without existing credit arrangements are not too far different from where they were a year ago, as increased Agency spreads are close to being offset by the 80 – 100 basis points reduction in the five and ten year Treasury and swap rates. While fundamentals for multifamily demand look very attractive over the next few years, it is pretty clear that new development will remain muted, as financing is tough to obtain (since Fannie and Freddie don’t finance development) and construction costs continue to rise (the latest data I’ve seen suggests a 6% annual rate of increase).

As a result of our reduced leverage from the equity raise, and of recent trends, we’ve taken the mid-point of our FFO forecast for 2008 down by 3 cents from our guidance given at the end of the first quarter, back to our original beginning-of-the-year guidance of $3.65 to $3.85 per share.
- We have raised common equity earlier in the year, and now anticipate having $50 million more than we previously planned, causing 3 cents per share of FFO dilution on a full-year basis.
- We’re now projecting same-store NOI growth in the range of 3% - 3½%, with revenues growing about 3% and expense growth for the full year in a range of 2½% - 3%. Remember in the second half of this year we’ll have some tougher comparisons because of the very favorable insurance renewal and real estate tax adjustments that benefited us in the back half of 2007.
- We have a few additional pieces of the forecast that are moving around. We’ve increased our full year forecast for same-store real estate tax expense to just over 5½%; as mentioned above, the increase from our prior accrual rate is not quite offset by the savings from our July 1 insurance renewal.
- Compared to our prior forecast, we’ve reduced the forecast for the mid-point of our full-year NOI by $1.9 million. This reduction is more than offset by a $1.2 million reduction in forecast interest expense resulting from lower rates, together with $900,000 less G&A and property management costs.
- We expect about 3½ cents of FFO dilution this year from the acquisition of Providence at Brier Creek and a property we purchased yesterday, because they’re in lease up. This is in addition to the 11½ cents of dilution we’re expecting from the existing development and lease-up properties.

One final comment: in thinking about 2009, remember that all companies will be implementing SFAS 141R, a new accounting standard which requires that certain costs which have been historically capitalized into the basis of acquisitions will be a current period expense, and thus a deduction from FFO. In the case of Mid-America, we estimate that this will reduce our reported FFO in 2009 by 5 to 6 cents per share at our current level of acquisitions. To emphasize, this will impact all public companies, and is not anything unique to Mid-America.

**Bolton**

Our strategy for Mid-America is framed around a goal of delivering high risk-adjusted returns to shareholders. We believe that goal is best accomplished with a structure focused on deploying capital in the high-growth sun-belt region where demand side variables tend to not only weather economic down-turns better, but a region that will also capture more robust job growth during periods of economic expansion.

Long term the fundamentals that drive demand for apartment housing look very good. New development continues to be challenged in this environment and the threat of oversupply is not on the horizon as far as we can see. We believe Mid-America is in a terrific position. Our portfolio of high quality properties strategically diversified across a high growth region, with a very strong operating platform and experienced team in place, a material level of lease up and new development properties to come on line over the next
couple of years, and a balance sheet that is very well positioned to support additional growth and move forward opportunistically, puts the company in a strong position.

Operator that concludes our prepared remarks and we’ll now turn the call over to you for any questions that we have.