Mid-America Apartment Communities, Inc. (NYSE: MAA)
First Quarter 2009 Earnings Release Conference Call
May 8, 2009

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.

Bolton

Thanks for joining us this morning.

As outlined in our pre-announcement a couple of weeks ago and detailed in our full earnings release yesterday, first quarter results were better than expected with FFO per share at a record high for any quarter in our history. The out-performance was due to lower than expected property operating costs and interest expense. Overall, the quarter's operating performance was generally in line with what we expected and reflects our focus to combat what we knew was going to be more challenging leasing conditions throughout the year. While we're encouraged with the quarter's performance, we recognize that the bulk of our leasing season is still in front of us and as a result we remain cautious in our outlook. And while we're confident that we're in good position to play defense as needed, we're optimistic about what we believe will be increasing opportunities to capture new value growth; from both our existing properties as well as from new acquisitions. We have a number of new initiatives and programs underway this year that will enhance the earnings capabilities of our existing portfolio; both this year and long-term. The deal flow we're seeing is becoming increasingly attractive as a few transactions we were unsuccessful in getting under contract several months ago, at pricing we were comfortable with, have recently come back around.

In my comments this morning I'll address a couple of points pertaining to our operating outlook and new growth prospects before turning the call over to Simon to provide more details on the quarter and updated guidance.

Our focus in protecting occupancy and maximizing revenue results this year centers on a few key variables. First, we knew that it would be important to ramp-up efforts to increase traffic levels and ensure we were capturing more than our fair share of potential renters in the market. In this environment, proactively driving more walk-in traffic to our properties, and then closing on them, is hugely important. Secondly, we made a decision to concede on pricing as individual market and sub-market conditions warranted, but only in a very controlled and closely monitored fashion. Third, we recommitted to our long-standing practice of not compromising credit and leasing standards as we sought to close on more lease applicants. And fourth, we re-energized and enhanced a number of processes associated with our resident retention and lease renewal programs.

We believe the operating strategy is working as shown by our first quarter results. While weak employment trends across the country are clearly impacting apartment fundamentals, a combination of our portfolio strategy that allocates capital across both primary and secondary markets, coupled with the strength and intensity of our operating platform, puts Mid-America in a solid position to work through the weaker cycle this year and into 2010.

Taking a look at leasing traffic in the first quarter, we captured a 6.6% increase in walk-in traffic as compared to first quarter last year. And importantly, we also captured a 4.3% increase in our closing ratio, driving 7.4% more move-ins in the first quarter as compared to last year. This helped to increase same store occupancy by quarter end to 95.5%, which is only 20 basis points off the record high first quarter occupancy we posted last year, and 200 basis points higher than the preceding quarter-end.

In managing our revenue results, we also believe the programs and procedures we've introduced over the past year to proactively manage pricing decisions through our yield management program have made a positive impact.

At the start of the year, our focus was on improving occupancy prior to reaching the busy summer leasing season; with a particular emphasis on Atlanta and Jacksonville, where we're facing our toughest leasing conditions. In addition to increasing traffic levels, we also felt it was important to price competitively with the market to capture new leases. As a result, we saw the pricing for new leases in the first quarter decline by an **average** of 4.1%, with a significant improvement in occupancy as the same store portfolio gained 200 basis points in occupancy from year end. We were particularly pleased with the results in Atlanta where we gained 380 basis points in occupancy and in Jacksonville where we gained 210 basis points in occupancy from year end. It's worth noting, that the average decline in the quarter's new lease pricing improves by 80 basis points when you exclude Atlanta and Jacksonville from the analysis. With occupancy now at a very solid position, and given the stable pricing trend we've seen over the last three months, I'm optimistic that pricing will continue to stabilize over the next few months.

Our strategy to maintain high credit and leasing standards is also generating very good results. Net collection loss in the first quarter was a very low 0.14% of the total contractual rents owed, as compared to a record low of 0.04% in the first quarter of last year. And importantly, net collection loss improved on a sequential basis from the fourth quarter by 40 basis points. Capturing this strong level of performance in collections, despite a significantly weaker economic environment, speaks to the high quality of our properties and our commitment to not compromise resident profile and long-term property value in an effort to maximize occupancy.

Resident turnover continued to decline with move-outs down 7% in the first quarter as compared to last year. The lower turnover performance was of course helpful to our efforts to keep expenses down and was a large part of what drove property operating expenses lower than we expected.

In summary, we like where the portfolio is positioned for the busy summer leasing season. Occupancy further improved in April and we ended the month with same store occupancy at a very strong 95.9%, which is, notably, 50 basis points higher than last year. With occupancy this strong and resident turnover continuing to trend lower, we're optimistic that we will be able to achieve pricing at the levels assumed in our up-dated guidance.

As outlined in our supplemental schedules, Atlanta and Jacksonville remain our two weakest markets as weak employment trends, coupled with new supply delivered over the last 6 – 9 months, make an impact. However, with Atlanta new apartment starts now headed toward a 20-year low, and Jacksonville new starts trending to well below historic levels, we do not expect to see a material deterioration in leasing conditions from this point forward. And of course the prior year comparisons become easier later this year for both of these markets. Austin is the only market where we see pressure building as a result of more recent new supply. We expect leasing in Austin will be increasingly challenged this year before improving late next year.

We remain positive on our expectations for the year at our Raleigh properties. We also believe the Memphis market will hold up well over the peak leasing season as we ended the first quarter at a very strong 97.7% occupancy, representing an almost 400 basis point improvement from year end. Our other two Texas markets with large concentrations, Dallas and Houston, while showing signs of moderation from last year, are holding up well with revenue growth running in positive territory on both a year-over-year, and, a sequential quarterly basis.

We continue to believe that our secondary market portfolio segment will provide effective portfolio support and stable performance in this weak part of the economic cycle. From our perspective, the single most important variable impacting apartment leasing conditions across the country is the employment picture. We continue to see that employment conditions in our secondary markets are better than in our primary market segment, and collectively, Mid-America's markets are out-performing national employment trends. In the first quarter, on a non-seasonally adjusted basis, national employment trends were down 2.8%. On a comparative basis, Mid-America's primary market segment was stronger with a decline in employment of 2.1%, and our secondary market segment performing even better with employment down 1.6%. We expect this out-performance of Mid-America's markets will continue in this down cycle, with an even higher level of out-performance developing as the economy stabilizes later this year and into 2010.

On the transaction front we're actively looking at a number of acquisition opportunities. We're increasingly encouraged with the trends we see developing as sellers seem to be finally adjusting their pricing requirements. The number of opportunities associated with stressed financing situations is growing and we see lenders taking a more active role. And as noted earlier, we are also seeing more deals starting to come back around a second time. Our investment discipline and strategy remains focused on capturing those opportunities where we believe we are buying at a discount to replacement value and where we feel we can create positive NPV to shareholder value based on a realistic set of assumptions and forecast.

We're currently in conversation with a potential new partner for our Fund II joint-venture initiative that we mentioned earlier this year we were interested in putting together. I'm optimistic that we will have this initiative underway in the second quarter and thereby establish an additional growth opportunity for Mid-America targeting value-add investment opportunities.

I'll now turn the call over to Simon to cover additional details regarding the quarter's performance.

Simon

Our fourth quarter FFO per share of $1.01 cents was an all-time record, 9 cents ahead of the mid-point of our guidance and 5% ahead of the first quarter of 2008. About half of the upside from our original guidance was contributed by the properties; same-store NOI was considerably better than we forecast, and down just 1.1% compared to a year ago. High occupancy and excellent collections helped revenues; as Eric mentioned, expenses were the primary driver of the NOI out-performance, with same-store property operating expenses 0.4% below the same quarter of 2008. Some of this was due to new programs, some due to lower resident turnover, and some due to some non-recurring adjustments. The other half of the upside from our forecast was due to lower interest expense. Our average interest rate dropped to 4.3%, compared to our forecast of 4.8% and an average of 5.1% in the first quarter of last year, as we benefited from low Agency rates.

Eric mentioned that we did lose a little effective rent, which declined 0.2% from the first quarter of last year to $735. The average effective rent on leases written to new residents dropped by 7.1% over the same quarter a year ago; but rents on lease renewals were up an average of 2.7%, bringing our average rent on all leases written in the first quarter down only 4.1%. We believe that it was the correct decision in the current market environment to concede rent on new leases to build occupancy. We think that the close-to-record occupancy we achieved at the end of the first quarter will help us regain a little of our pricing power. As a result of our successful program to build occupancy in the first few months of this year, we expect that our average rent for new leases will improve from the first quarter, and be down just 3% for the balance of the year.

Year-over-year same-store revenues declined 0.8% on slightly lower rental rates, but this was still about 10 basis points better than we'd projected. As I mentioned, expenses were down 0.4% compared to the same period of 2008. Reductions in repair and maintenance expenses were in part due to lower resident turnover, and also due to improved systems and procedures that we implemented towards the end of last year. In the fourth quarter we rolled out a web-based system to help us manage our get-ready inventory process which is proving to be quite helpful. We saw benefit from our new purchasing system that we introduced at our properties last year. We also were helped by favorable non-recurring adjustments of about $400,000; and marketing costs are trending lower as we increasingly move to on-line media. As a result, the reduction in same-store NOI was about 200 basis points better than we'd forecast, down just 1.1% compared to the first quarter of 2008.

Resident turnover in our same-store portfolio decreased 7% for the quarter compared to the same period a year ago mainly because residents leaving us to buy a house dropped 31% from 25.6% of move-outs in the first quarter of 2008 to 18.9%. On a trailing 12-month basis, resident turnover is only 60.4% compared to 63.2% a year ago. We saw residents moving out for credit reasons rise from 11% of turnover to 12.9% this past quarter. House rental continues to be a very small part of our competition: the number of residents moving out to rent a house increased slightly from 4.5% of move-outs a year ago to just 5.4% of move-outs this quarter. You'll probably have seen that home ownership nationally dropped to 68.2% of households in the first quarter, down by 50 basis points compared to the first quarter of 2008. This represents over 600,000 households, a substantial increase to the rental pool, which reduces the impact of job losses on the rental market. We believe that this trend will continue as a result of sounder lending standards.

For the quarter, AFFO was $0.88 per share, comfortably ahead of our $0.615 dividend, and one of the best dividend coverages of the sector. Excluding the redevelopment program, total property capital expenditures at existing properties were only $5.4 million, compared to our full year budget of $29.5 million, as they're traditionally low early in the year.

We completed the sale of one property in Greensboro, North Carolina, Woodstream, in January. This 25-year old property was sold for $11½ million, at around a 7.7% cap rate. We have two other properties under contract for sale, Riverhills in Grenada, MS, which is expected to be completed this month, and River Trace in Memphis, which is now targeted for August, with total proceeds estimated in the $18 million range, around a 6¾% cap rate. Both properties were listed as 'held for sale' at quarter end. We haven't forecast additional dispositions in 2009.

We continue to have one of the stronger financial positions of the apartment REITs. On April 1st we refinanced our only 2009 debt maturity, a $38.3 million bank loan. After this refinancing, we have $175 million of unused capacity available under our credit facilities. In 2010 we have only our $50 million bank credit facility that matures which we expect to refinance with our current lenders, although, as I mentioned, we have capacity to take it out if needed.

At March 31st, our debt to total gross assets was 51%, down 100 basis points from a year ago, and about 300 basis points below the apartment sector median. Our fixed charge coverage in the first quarter was 2.77, well ahead of 2.39 a year ago, and also well ahead of the sector median of 2.1.

In 2009, we expect to pick up 2 cents a share from debt re-pricing opportunities on the $38 million refinancing that we just completed. We have $65 million of debt that re-sets to variable rate on December 1st, and based on our refinancing assumptions, expect to pick up 8 cents a share of savings on a full year basis. This does not represent mortgage maturities, but just the re-pricing of an in-place credit facility.

Despite the feverish pace of equity issuance by REITs over the past couple of months, we have no current plans to issue new equity, and we have not been active with our continuous equity program. Our balance sheet is in great shape, and we have no need to issue equity for defensive purposes. We continue to monitor the capital markets and the investment environment, and our position on issuing new equity will change if we begin to see more attractive investment opportunities develop that will accrete NPV per share; we want to remain ahead of the curve to ensure that we maintain a strong and flexible balance sheet.

In our press release we give more details on our full-year forecast, which we have increased by 7 cents to a range of $3.47 to $3.67 per share. Because of the weaker job market, we're projecting FFO for the rest of the year to be slightly below our original forecast, which originally assumed unemployment averaging 8% – 8½%. Given the continuing job losses, we think it is prudent to revise our forecast based on unemployment averaging 9% - 10%. The impact of this is partially mitigated by the continuation of the shift of households back to the rental market, and reduction of resident turnover, as well as relatively more robust employment in our markets compared to the national picture. Further, we have initiated a number of programs, including improved systems, ancillary revenues, and expense reimbursement opportunities that are helping improve our top-line revenues and offset increasing expenses. We are now projecting around a 1½% - 2 ½% reduction in same-store revenues, which takes into account the impact of the weaker pricing we saw in the first quarter, and approximately a 4% - 6% reduction in same-store NOI.

We project our average interest rate for the year at 4.4%, compared to our original forecast of 4.8%. We see Agency interest rates continue to be very favorable both overall and compared to Libor. 24% of our debt is floating rate, of which 1/3 is capped, and much of our fixed rate debt is swapped against Libor. Since the Agency rate is trading well below Libor, this helps current earnings.

In 2009, we expect property capital expenditures to approximate $29.5 million, or $0.96 per share, with recurring capex in the region of $21½ million, or $0.96 per share. In addition, we project full-year development funding of $9 million, down from $25 million last year, and $9 million of redevelopment expenditures, about half of the level of 2008.

We continue to anticipate that we'll invest approximately $75 million in new acquisitions, and contribute about $9 million for our share of the equity in Fund II, our proposed new joint venture. We assume that this second joint venture will be structured similarly to Fund I (we'll invest 1/3 of the equity in an entity that is 65% leveraged). Our forecast also assumes that Fund II makes $75 million of acquisitions in the second half year; about 3 cents of our FFO guidance is based on the acquisitions being completed in 2009, less than might otherwise be expected due to the impact of FAS 141R, which requires that acquisition transaction costs be expensed. We plan to finance our investment program with the $30MM of asset sales and our existing credit facilities, which we've mentioned have plenty of capacity; we forecast leverage to grow only 60 basis points from current levels by the end of the year, with debt rising to about 51½% of gross assets.

We're increasing our full year AFFO guidance to a range of $2.78 to $2.98 per share. Our dividend payout ratio in 2008 was 82% of AFFO one of the lowest in the sector, and compares to a sector median of 90%. In 2009, we're projecting our payout to rise to 85% at the mid-point of our forecast, still a strong position compared to most of the others. Absent a major deterioration in the apartment or financing markets, we don't plan any changes to our cash distributions for 2009.

Bolton

We're excited about the opportunities in front of us. I'm confident that we have our operating platform and systems properly focused. Occupancy is in a very strong position as we move into our peak leasing period. Our new programs aimed at driving more traffic to our properties are having a real impact and our processes associated with pricing and revenue management are working well.

We remain convinced that our portfolio strategy focused on the high-growth sunbelt region, with diversification in both primary and secondary markets, will continue to yield a more stable level of performance and cash flow during this weak part of the leasing cycle; while also yielding strong results as leasing conditions improve. And, we also endorse the notion that some of the markets that experienced job loss and leasing pressure first, such as our Florida markets, will be the first to snap back as the economy begins to gain some positive traction. In summary, we continue to believe that our defensive game plan has Mid-America in a good position.

Mid-America's balance sheet is also in a terrific position. Coverage ratios are strong. And we have amply capacity to meet the growth plans outlined in our guidance. We have a successful history of discipline and proven processes for deploying capital, which has enabled Mid-America to avoid value write-downs and the stress of executing forced dilutive transactions in this environment to repair a damaged or at risk balance sheet.

We’re optimistic that the opportunities to capture new acquisitions that meet our investment disciplines are improving. We look forward to further leveraging the strong operating platform and organizational capabilities we have in place through new investments for both our own account and through a new Fund II.

That’s all we have in the way of prepared comments and operator will now turn the call back over to you for any questions.