Mid-America Apartment Communities, Inc.
Conference Call Third Quarter 2009
November 6, 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.

Eric Bolton
As reported late yesterday, Mid-America delivered another quarter of solid operating results. Based on this strong performance, as well as early signs that leasing conditions across the portfolio are beginning to stabilize, we now believe that funds from operations, or FFO, for the year will be higher than our prior guidance.

Our ability to deliver stable results, despite the weak economy, is a result of Mid-America's investment strategy aimed at delivering superior full cycle performance, as well as the strength of our operating platform and a disciplined approach to growing and financing the company. We're confident in the company's ability to continue to weather this weak economic cycle.

And importantly, we expect that as leasing conditions rebound next year Mid-America will deliver results that will continue to compare favorably within the apartment sector. We believe that our Sunbelt markets will generate some of the strongest leasing fundamentals in the country over the next 4 or 5 years. A combination of very limited new supply, along with the region's record of historically strong employment recovery, that typically out-paces national trends, will drive robust leasing conditions across our portfolio. It's interesting to note that 85% of the properties owned by the apartment REIT sector are concentrated in just 25 markets. As most of you know, while Mid-America's portfolio is meaningfully allocated at just under 60% to many of these same 25 markets, our approach is to also diversify in a number of the secondary markets across the high-growth region. If you take a look at employment growth projections for 2011 through 2013, our markets are in aggregate forecast to out-perform this group of 25 markets where the REIT sector is significantly concentrated. On the other side of the equation, if you consider new supply projections between now and 2013, likewise, our markets are forecast out-perform both national and other regional trends with a more dramatic fall-off in new supply as compared to historical trends. We think this combination puts Mid-America in a very strong position coming out of this recession.

While the current weak employment conditions will cause leasing fundamentals to remain somewhat anemic over the next few quarters, we're increasingly optimistic that Mid-America's portfolio has likely seen the worst of the pricing pressure. In the third quarter we saw improvement in the pricing trends on leases written for new customers. Pricing for new residents in the third quarter posted a year-over-year decline of 6.0%, which was improved from the 7.6% decline posted in the second quarter and the 7.3% decline in the first quarter. And, importantly, within our portfolio pricing on renewal transactions for existing residents has remained positive on a year-over-year basis, with renewal rents up 1.1% in the third quarter. While we expect there may be some seasonal pressure over the next few months, we are increasingly comfortable that pricing trends have stabilized and should begin to show recovery next year.

We've been very pleased with the strong occupancy captured year-to-date. This strong occupancy performance, coupled with very good progress from several new fee initiatives, has combined to off-set some of the pressure on rents. However, as a result of the growing impact of re-pricing a greater percentage of the portfolio to today's market rent level, the math will cause us to continue to post negative revenue trends over the next several quarters. Once we're able to start meaningfully moving rents back up, which we believe will get underway at some point in the latter half of next year, we expect to then build positive momentum in overall revenue results. Until then, our focus remains on keeping occupancy high, capturing increased penetration and upside from our new fee initiatives, and minimizing the number of vacant days between apartment turns.

Occupancy continues to remain very strong across the portfolio. Overall same store occupancy in the third quarter was up on both a year-over-year basis, as well as on a sequential basis to the second quarter. We've seen a little weakness develop in Dallas and Houston as compared to earlier this year, as some new supply from projects started before the credit crisis came on line over the last six months or so. But even with that new supply pressure, our properties in Dallas and Houston in aggregate captured above 95% occupancy while average effective rent declined by only 1.9% in both markets. Our properties in Atlanta have done a terrific job in building occupancy and are much improved from the same time last year. Likewise, we've been pleased with improved occupancy from our Florida properties and continue to believe that we have reached a point of more stable performance going forward out of Florida. We expect it will be a while before pricing trends move meaningfully positive, but broadly speaking, we certainly don't expect to see trends materially worsen in order to hold good occupancy across the portfolio. It's worth noting that our same store portfolio occupancy last week, at October month end, was 95.3% and 80 basis points ahead of last year.

A large part of the strong performance and ability to out-perform our markets this year has been a result of the significant upgrades and changes we've made to our operating platform over the last few years. While these enhanced capabilities, which we continue to refine and expand, have enabled us to compete very effectively in our large tier markets, the ability to out-perform is also evident in our secondary market segment where local owners and management firms typically don't have the efficiencies and capabilities that we're able to drive into our property operations – thus providing our properties a real competitive edge. With our web-based Access 24/7 leasing program we're continuing to drive more cost efficiency and effectiveness into the process of capturing new prospects and residents. Our new statement billing platform is driving more efficiency into rent and fee collection practices, as well as freeing up on-site staff time. Our automated inventory management program is driving more efficiency in the important area of turning apartments between residents. And despite the weak market conditions, we've captured great progress and results from our new ancillary fee initiatives this year.

We believe Mid-America's operating platform is a large part of our ability to drive value and capture performance that tends to out-perform the perceptions of what many believe our markets can deliver. By creating value through both the acquisition process and strong property operations, we believe our approach will continue to capture results that, over time, exceed the performance expectations implied in the higher cap rates some use in assessing current value in a number of our primary and secondary markets.

As noted in yesterday's release, we completed two acquisitions since our last call, one for our own account and one for our new Fund II joint-venture. As compared to a few months ago, I can tell you we are definitely seeing more deals. I can also tell you that we are seeing a lot of competition from other interested buyers, especially for stabilized and more easily financed deals. We're routinely seeing well located, high quality and stabilized properties going under contract in the low 6 cap range. Given the cost of financing and the fact that operating metrics are holding up reasonably well, we certainly expect to see cap rates for the type of stabilized and higher quality properties represented in Mid-America's portfolio to hold much closer to a 6 cap than a 7 cap. With financing readily available for stabilized apartment properties, strong net operating income, or NOI, recovery trends likely emerging in another 4 quarters or so, and clearly a lot of investment capital anxious to deploy in apartment real estate, it's not hard to conclude that values are firming up and that there is more likelihood that cap rates move down from where we are now, and not up.

For the moment, we're finding the most success and attractive opportunities associated with non-stabilized properties that are still in lease-up, or transactions requiring a very short fuse where timing and assurance of a close are critical to the seller. We're also looking at a couple of fractured condo properties that offer meaningful long-term value opportunity. We expect that the volume of new investment opportunities will continue to grow as we head into 2010 and we're optimistic about our chances to capture additional attractive investments over the next year.

Simon Wadsworth
Our third quarter FFO per share of $0.89 cents was 4 cents ahead of the mid-point of our earlier guidance, and just a penny behind the third quarter of last year, as property operating results were a lot stronger than we anticipated. Revenues were higher on increased occupancy, excellent collections performance, and success with the initial roll-

out of our bulk cable program. Expenses were helped mainly by reduced utility expenses and property taxes. These contributed to great same-store NOI performance, which declined just 2.1% compared to the third quarter of 2008 on a revenue reduction of 1.7%.

As Eric mentioned, we saw some early signs of bottoming in rent trends. The average rent on all leases written in the quarter improved approximately100 basis points from the second quarter, and was down only 2.8% compared to the expiring leases.

Same store revenues declined only 1.7%, on physical occupancy which was up 70 basis points over the third quarter of last year. As I mentioned, we were also helped by strength in our collections, with delinquency slightly improved over last year at 0.5% of net potential rent, and an increase in reimbursement fees and cable revenues.

Same Store expenses dropped by 1.3% compared to the third quarter of last year. Before taxes and insurance, property operating expenses decreased 0.3% as a result of reduced turnover, tight control over repairs and maintenance costs, and reduced utility expenses. Property taxes were down 3.4% compared to third quarter of 2008, and insurance costs were down 4.3% as a result of the favorable renewal on July 1st.

You'll notice that the Houston same-store group showed a significant decrease in same-store expense. This is mainly because in the third quarter of 2008 we expensed $240,000 relating to Hurricane Ike, along with our success in lowering property taxes this year.

Traffic levels for the quarter reflected our reduced turnover, and declined slightly over last year. With occupancy beginning and ending the quarter at close to record levels, and the number of move-outs declining by 5.5%, we were able to reduce marketing activities appropriately.

We continued to see a reduction in the number of our residents leaving us to buy a house, which was down by 4% compared to the same quarter of 2008, and it is reasonable to think that the reductions are beginning to bottom out. Some of this is probably due to the home-buyer tax credit, but it is most likely because in the comparative quarter of 2008 we'd already seen a sharp downturn in home-buying. Move outs to buy a home were 22% of the total, almost a 1/3 reduction from the peak levels of 31% we saw in the second quarter of 2007. On a trailing 12-month basis, resident turnover is only 58.1% compared to 61.5% a year ago. 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 4.1% of move-outs a year ago to just 4.8% of move-outs this quarter.

We continue to feel comfortable with the current dividend level based on our internal projections for this year and for 2010. Although we've seen some of our peers improve their dividend coverage through reductions in their cash payouts, we continue to have one of the better coverages of the sector. Year to date, adjusted funds from operations, or AFFO, was $2.25 per share, up from $2.19 last year, and well ahead of our dividend paid during the quarter.

As we reported in our last call at the end of July Fund II, our joint venture in which we have a 1/3 interest acquired Ansley Village located in Macon, GA, just south of Atlanta. Ansley Village is a 294-unit high-end property in lease-up that was completed in 2007. Fund II acquired it for about 65% of its development cost from a bank who'd taken it back by deed in lieu of foreclosure. The property is operating significantly ahead of our projection and is currently 86% occupied, up from 70% when we acquired it; we've projected a 10% NOI yield once it reaches stabilization. Fund II financed it with a non-recourse bank loan at approximately 65% loan-to-value, and anticipates replacing this with more permanent debt after the property reaches 90% occupancy.

After the close of the quarter, in October, Mid-America acquired Park Crest at Innisbrook, a 432-unit upscale apartment property in Palm Harbor, near Tampa, FL, directly across from the main entrance to Innisbrook Resort and Golf Club. Park Crest was built in 2000, and was acquired for $31 million, or $71,800 per unit. We plan to reposition and renovate the property once the Tampa market recovers.

We have one remaining property under contract for sale, River Trace, one of our older properties located in Memphis, which is now targeted to sell in November, with proceeds estimated in the $15 million range, around a 6.9% cap rate. River Trace was listed as 'held for sale' at quarter end.

We continue to have one of the stronger financial positions of the apartment REITs. As we discussed in last quarter's conference call, we decided to issue a small amount of equity based on what we believe to be an improving acquisition environment. Early in the quarter, using our continuous equity plan, we raised almost $25 million by selling 591,000 shares at an average net price of $41.60. Absent a further improvement in our acquisition opportunities, we don't plan to issue additional shares this year. Yesterday we filed a new continuous equity agreement with the SEC, because our current plan is almost fully taken down, but this does not indicate an immediate plan to use it.

As we've previously mentioned our only debt maturity in the next 12 months is our $50 million bank credit facility maturing next April. We're in discussion with our current lenders about replacing it, and we don't anticipate any issues. As of the end of the quarter, we had $177 million of unused capacity available under our credit facilities. At September 30th, our debt to total gross assets was 49%, 200 basis points below the level of a year ago, and about 300 basis points below the apartment sector median. Our fixed charge coverage in the third quarter was 2.59, 10 basis points ahead of 2.49 a year ago, and also well ahead of the sector median of 2.41.

In November, we reset $65 million of fixed rate debt maturities which carried a 7.7% interest rate with floating rate debt, of which we plan to cap the large majority; the rate on the new debt is approximately 1%, so we expect to pick up almost 2 cents a share of interest expense savings for the balance of this year, and 8 – 10 cents per share of savings in 2010. You'll notice that we've taken up the share of our debt that we have fixed, swapped, or capped to 90%, up from last year's level of 81%, which we think is prudent given the current environment.

The strong results in the third quarter and the significant improvement in our outlook for property operations in the fourth quarter again causes us to increase our 2009 forecast of FFO per share, with a new mid-point of $3.74, one cent ahead of our 2008 full-year FFO, and up 9 cents from the mid-point of our prior guidance of $3.65. For the fourth quarter, the mid-point of our guidance for FFO per share is 87 cents, up from our prior mid-point of 82 cents, with a range of plus or minus 5 cents. For 2009, we are now projecting a 1½% - 3% reduction in same-store NOI, at the mid-point down 2¼%, which is 125 basis points better than our prior guidance. This revised forecast is built on a full year 1% - 2% reduction in same-store revenues, and a decrease in expenses of approximately 0% to 1%.

We project our average interest rate for the year at 4.4% compared to an average of 4.9% for 2008. At the end of the quarter, 78% of our debt was fixed or swapped, and a further 11% capped.

Excluding the redevelopment program, our year to date total capital expenditures at existing properties was $26.4 million compared to our full year forecast of $29.8 million, or 97 cents a share. Recurring capex is budgeted in the region of $21½ million, or 70 cents a share. We anticipate total expenditures on our redevelopment program of $9 million, about half the level of last year, of which just over $7 million is budgeted for the interior upgrade of 2,000 apartment units, with the balance for external upgrades. In addition, we project full-year development funding of $7 million, down from $25 million last year, of which only $1½ million remains to be funded.

For the full year, we continue to anticipate that we'll invest approximately $75 million in new acquisitions, indicating one more wholly-owned acquisition. We expect our full year equity contribution to Fund II will be $6 million, with one more anticipated acquisition.

Eric Bolton
To summarize, we like where Mid-America is positioned. We expect that over the next few quarters, as the economy begins a slow recovery cycle, we will continue to deliver operating results and FFO performance that will hold up comparatively well. We're excited about the new investments we're capturing and the growing opportunities emerging. They will add additional upside to Mid-America's performance down the road. Beyond the next few quarters, as we begin a more robust recovery cycle for apartment fundamentals, we're excited about Mid-America's prospects. We believe that our markets and portfolio strategy, supported by the high quality of our properties, the strength of our operating platform, and the capabilities of our folks here at Mid-America, will continue to deliver strong long-term results.

Before we open up for questions I want to take just a moment to acknowledge Simon, who as per our announcement in early September, will be retiring as our CFO at year-end. Simon's steady hand and thoughtful management of our balance sheet and our accounting & finance operations over the last 16 years have clearly been a huge part of our success and the significant shareholder value created. And just as important, his development and leadership of his staff, puts our finance and accounting operation, and capabilities surrounding financial strategy planning and execution, in a very strong position as we move forward.

While in the future he will be devoting more time to grandchildren, travel, tennis, and believe it or not, scuba diving, Simon will continue to support our mission at Mid-America and will remain on our Board of Directors.

Al Campbell, who has been a key member of our strategy and financial planning team over the past 11 years, will be formally assuming the CFO role at year-end.

Congratulations to both Simon and Al. And after 16 years of earnings calls for Mid-America, I think Simon is anxious to go ahead now and move to Q&A.