

Mid-America Apartment Communities, Inc.
Conference Call 3Q10
November 5, 2010, 9:15 am (Central)

Leslie Wolfgang

Good morning. This is Leslie Wolfgang, Director of External Reporting for Mid-America Apartment Communities. With me are Eric Bolton, our CEO, Al Campbell, our CFO, 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 will be available on our website.

I'll now turn the call over to Eric.

Eric Bolton

Thanks Leslie and good morning everyone. Thanks for being on our call.

As outlined in yesterday's release, leasing conditions across the portfolio continue to improve and we're capturing solid recovery in pricing. Same store NOI results have been better than expected and as a result we once again increased guidance for NOI and FFO performance.

There are really two variables on the operating side that have generated the out-performance this year. Resident turnover has been lower than expected and as a result, effective occupancy has consistently held above last year's strong performance. We had originally expected that we might give up a little occupancy through higher turnover as we began to push on pricing. Instead, turnover has declined. Our current 12-month rolling turnover of 56% is the lowest we've ever recorded for our portfolio. The significant decline in residents moving out to buy homes continues to be the largest contributing factor to the lower turnover. In the third quarter, effective occupancy averaged 70 basis points higher than last year's strong third quarter performance.

We've also exceeded original projections for the year in the area of pricing as rents for new residents have begun to recover faster than expected. Average pricing for new residents moving in during September was 9.5% higher than the pricing achieved for this same customer in January. With the pricing for new residents just now poised to move ahead of the pricing on renewal transactions, we're optimistic about the prospects for continued pricing improvement heading into 2011.

During the third quarter, our secondary market segment continued to slightly out-perform our large market group. Driven by more stable employment conditions, the secondary markets have held up better and we've been able to be a little more aggressive, earlier, with pricing in these markets. Memphis, Little Rock and Lexington delivered solid third quarter results within the secondary market segment, which represents 40% of our total portfolio. We're encouraged with what we are seeing in the way of employment trends and new manufacturing jobs coming in to many of these secondary markets and are optimistic about the opportunity for continued upside performance from this segment of the portfolio.

Our large market segment, representing 60% of the portfolio, is where we've seen more leasing pressure over the past 18 to 24 months. A combination of more dramatic fall off in employment levels, coupled with new development that was started prior to the collapse of the financing markets weighed more on leasing in the large markets. With new supply now being absorbed and employment conditions stabilizing, we're encouraged by the recent price trends in these markets.

Within our large market segment in the third quarter, we saw some of the best pricing performance coming out of our Florida markets of Jacksonville, Tampa and South Florida. Dallas/Ft. Worth continues to show very encouraging trends and despite having held up better than most large cities across the country during the recession, is likely to be one of the stronger performing markets over the next couple of years.

Our year-over-year same store revenue performance went positive in the month of September and we expect to capture positive year-over-year performance this fourth quarter; the first time we've seen that in two years.

We continue to believe that MAA is well positioned for this recovery cycle. Employment trends in our Sunbelt markets are expected to outperform national trends. The fall-off in new development supply across our region, as compared to historical averages and what we've seen in past recovery cycles, is more dramatic as compared to national outlook. In summary, we like where MAA is positioned. We expect performance over the recovery cycle to be good and we certainly expect it will be competitive with the sector.

On the transaction front we've been pretty busy, having closed on five acquisitions during the quarter. We've provided details regarding each of the transactions in prior announcements so I won't spend time this morning on the specifics of any one deal and just add that in aggregate the deals were acquired at an average NOI yield, based on reaching stabilized NOI, of 6.9%.

Since the end of the second quarter we've clearly seen a real increase in deal flow and we're certainly underwriting a lot of opportunities at the moment. Our success in capturing new investments is tied primary to the fact that we've invested and operated in this region and these markets exclusively for over 16 years. We know the players. We know the markets. We know the neighborhoods. We're doing repeat business with folks

that we've worked with for many years. We're able to put our balance sheet and due diligence platform to work in a very expedient and definitive manner. This all combines to drive a lot of opportunity, and in a number of cases, on an off marketed or very limited marketed basis. And of course, I also believe that our focus on creating value in both large and secondary markets across the region helps to create a bigger pool of opportunity. Our disciplines and our approach to capital deployment at this point of the cycle are based on the same principles and practices that we've used for many years.

We announced last week that we acquired a land parcel in the very desirable Cool Springs sub-market of Nashville that we've had our eye on for quite a while. We just initiated construction of a new 428 unit high-end apartment community and expect to achieve initial occupancy in the third quarter of next year. Our growth strategy remains centered on pursuit of opportunities associated with existing apartment communities. New development will remain a limited part of our external growth strategy. However, at this point there is clearly not much in the way of new development taking place and we believe the current environment offers a number of unique and compelling opportunities. Upon stabilization, we forecast to capture more than a 150 basis points higher initial yield on our Cool Springs development as compared to the forecast yields from stabilized property acquisitions. Should particularly compelling development opportunities continue to emerge, you may see us initiate one or two additional development projects.

That's all I have and I'll turn the call over to Al.

Al Campbell

Thank you Eric, and good morning everyone. We reported FFO results for the third quarter of 84 cents per share, which was at the high end of our range and 5 cents per share ahead of the mid-point of guidance. Our core FFO performance, excluding the non-routine items for the quarter, was 92 cents per share which was 3.4% above the prior year.

Our same store NOI performance compared to the prior year was 2.8% better than expected for the quarter, driving the outperformance. This produced four cents per share of favorability from our same store portfolio, with another penny per share added from our lease-up (or non-same store) properties.

As expected, we sequential revenues were essentially flat with the prior quarter. As outlined in our release, rental pricing for both new and renewing residents continued to increase during the quarter, up 2.2% on a blended basis. However, this growth was offset by a slight decline in effective occupancy during the quarter, related to a seasonal increase in leasing activity or "churn" compared to the second quarter, and a decline in fees as more people terminated leases early to buy a home in the second quarter.

The primary driver of our favorability for the third quarter was operating expense performance. Operating expenses overall continue to be well under control, while real estate taxes produced the majority of the outperformance to our expectations. We began

the year expecting local governments to keep valuation levels fairly stable, while being a bit more aggressive on millage rate increases. However, we received the bulk of our tax notices during the third quarter and we saw both assessed values and tax rates come in below our projections.

We remained very active in the capital markets during quarter. We issued a total of 1.6 million common shares through our ATM and DRIP share purchase plans, raising \$85 million in net proceeds. We used the proceeds to complete the redemption of the remaining outstanding Preferred H shares for \$77.5 million and to fund a portion of the recent acquisitions. As previously outlined, we plan the use of our ATM program to match our acquisition activity, maintaining our leverage in the current range.

In conjunction with this Preferred H share redemption, we recorded a charge of \$2.6 million, or seven cents per share, related to the original issuance costs of the shares. As previously mentioned, redeeming the entire 8.3% coupon Preferred H shares (originally \$155 million) improved our total balance sheet leverage by almost 6%, improved our fixed charge coverage ratio by almost 20%, and will add almost 6 cents per share to our FFO in 2011.

During the third quarter, we also entered two fixed rate mortgages, totaling \$118 million, at an average interest rate of 4.3%. Both loans were agency financings, the first (about \$30 million) was with Fannie Mae and the second (about \$89 million) was with Freddie Mac, and both provide good examples of the current financing environment. The proceeds were used to pay down our existing credit facilities, providing capacity for future acquisitions.

Our balance sheet remains strong and flexible. After considering the excess cash from recent financings, we ended the third quarter with debt to gross assets at 48%. Our fixed charge coverage ratio reached a historical high of 3.3 times for the quarter, which is well above the industry average. At quarter end, we had over \$150 million in combined capacity under credit facilities and excess cash. We have no debt maturities until July of 2011, and over 85% of our debt is fixed or hedged against rising interest rates.

As outlined in our release, we are again raising our FFO guidance for the year. The current increase of 6 cents per share, or 1.7%, at the mid-point, reflects the strong operating performance for the third quarter and our revised outlook for the remainder of 2010. It's important to note that this takes our guidance for "core" FFO, excluding the impact of the non-routine charges, to \$3.77 per share at the mid-point. This is more than 6% above the original guidance provided at the beginning of the year. As Eric mentioned, operating performance, led by rental pricing combined with continued strong occupancy, has been much better than originally projected for the year.

The primary components of the 6 cent per share guidance increase are the inclusion of the third quarter outperformance (5 cents per share) and an additional penny increase projected for the fourth quarter. There are several cross currents in the fourth quarter revision, with the increase comprised of four cents improved operating performance,

partially offset by three cents in combined dilution related to the recently announced development project, the timing of projected JV acquisitions, and additional G&A costs.

Our guidance for the full year is now built on an expected NOI decline in the 1% to 2% range, verses the 2% to 4% range in our previous guidance. We now project just over \$200 million in wholly-owned acquisitions for the year, of which \$173 million has been completed, and we project an additional \$150 million acquired in Fund II for the year, of which \$42 million has been completed. We have also added \$17 million in development funding related to the recently announced project.

Our revised guidance for the full year is now for FFO per share in a range of \$3.49 to \$3.63 per share, \$3.56 at the mid-point. FFO per share for the fourth quarter is projected to be in the range of \$0.86 to \$1.00, or \$0.93 per share at the mid-point.