



## CONFERENCE CALL TRANSCRIPT: 1Q2011

### May 6, 2011 9:15 AM (Central)

#### **Leslie Wolfgang**

Good morning. This is Leslie Wolfgang, Director of External Reporting for MAA. 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. We appreciate all of you joining our call this morning.

Operating performance in the first quarter was highlighted by strong growth in rents with effective pricing on leases written for new residents increasing 7.4% as compared to last year. Renewal pricing in the first quarter was also strong, increasing an average of 4.1% as compared to the expiring lease. Importantly, the average rent being captured for new resident leases now surpasses the pricing on renewal transactions, further supporting efforts to increase renewal pricing as we enter the busy summer leasing season.

We continue to capture high resident retention with move-outs remaining near all time lows. Effective occupancy, which considers the turn of units during the quarter, averaged a very strong 94.9% as compared to 94.8% in the first quarter of last year. While we do expect to see an increase in move-outs over the summer months, at this point we believe that our properties are well positioned to capture the pricing growth that we are forecasting for the year, without giving up much in occupancy.

As presented in the supplemental schedules to our earnings release, revenues increased across all of our markets in the first quarter. Our secondary markets continue to slightly out-perform our large market segment with Greenville, Little Rock and Memphis posting strong rent and revenue increases as compared to prior year. With the employment markets recovering and new supply well below historical standards, within our large market segment we expect to capture improving pricing trends in both Dallas and Houston during the coming summer leasing season.

As outlined in our report to you in February, we plan to increase our unit interior renovation program this year after pulling back during the last two years. During the first quarter we completed over 600 unit upgrades or about twice as many we did over the same period last year. We continue to capture significant rent increases and very attractive investment returns on the capital deployed with unleveraged returns of around 11%. Given the outlook for strong leasing conditions we expect to see continued growth in this program. Our current plan calls for repositioning 2,600 units this year.

We continue to capture increasing efficiency in our operating platform as we're able to capture more of our leasing prospects and existing resident transactions through our various web based applications. During the first quarter close to 60% of our leasing leads originated via the internet and remains our fastest growing source of traffic.

We remain active in the transaction market closing on four properties since the first of the year, one of which was closed into our Fund II joint venture. In addition, we closed this week on the acquisition of a new development site in Little Rock that we expect to have under construction during the current second quarter. Little Rock has remained a very stable and well performing market for us over the years and this is a market that sees very little in the way of new product delivery. We've got a terrific site and believe this project encompassing 312 new units will be a very good long-term investment for us with a stabilized NOI yield of just over 8.0% expected. The Little Rock development brings our development pipeline up to 950 units or \$108 million.

Our transaction pipeline is very active and we're reviewing a number of potential additional acquisitions. Our strategy remains firmly fixed on allocating capital across both large and secondary markets of the Sunbelt region. We continue to believe that our balance sheet, operating platform, extensive deal flow and deep knowledge of the markets within this region enables us to generate a competitive advantage and capture attractive long-term investment returns for MAA shareholders.

I'll now turn the call over to AI to give you some insights on our financing activity and update on our earnings guidance. AI.

#### **AI Campbell**

Thank you Eric and good morning everyone. We reported FFO for the first quarter of \$37 million or \$0.98 cents per share, which was a penny above the mid-point of our guidance. Same store NOI growth of 4.9% compared to the prior year was better than expected and added 2 cents per share to our projected FFO for the quarter. This favorable operating performance was partially offset by some additional and non-recurring G&A costs recorded during the first quarter and a higher share count, as we used our ATM program to fund planned acquisition and development needs for the year. The additional G&A costs were primarily related to adjustments to our health insurance and bonuses during the quarter, but we do expect the run-rate of our G&A to decline to a more normal level in the remaining three quarters, which should put our total property management and G&A expenses for the full year in the \$34 million to \$35 million range.

As Eric mentioned, we've been active acquirers, purchasing three wholly-owned communities since year-end for a total of about \$73 million and one community for our joint venture for about \$25 million. All of these properties were stabilized on acquisition, and had an average cap rate on the first year's projected earnings of just over 6.0%.

In order to fund our planned acquisition and development activity for the year and manage our debt maturities, we were fairly active in the capital markets during the first quarter. We raised \$91 million in net proceeds during the quarter by issuing 1.5 million new shares through equity programs at an average price of \$61.27 per share.

We also received \$22.5 million in proceeds from a new mortgage put in place during the quarter with a fixed rate of 4.6% over the next seven years, and we entered an agreement to lock the rate on an additional \$128 million at 5.1% for ten years, which is expected to close and fund during the second quarter. This new loan is aimed at refinancing the \$100 million Freddie Mac loan maturing in July of this year. We only have one additional maturity in 2011, an \$80 million tranche of our Fannie Mae credit line, maturing in December, which we are working to refinance in the second half of the year.

Our balance sheet continues to be in very good shape, with our EBITDA for the quarter covering fixed charges 3.7 times, compared to the sector average of about 2.5 times. Also at the end of

the quarter, 89% of our debt balance was fixed or hedged against rising interest rates, and we had \$230 million in available cash and borrowing capacity under lines of credit. Our leverage (defined as debt-to-gross assets) was 46.4% at the end of the quarter, and we plan to continue using our ATM program and lines of credit to fund our acquisition and development plans for the remainder of the year, maintaining our leverage at or slightly below the current level through year-end.

As mentioned in the release, we are raising our FFO per Share guidance for the full year to reflect the favorable results for the first quarter and revised expectations for the remainder of the year. While we believe a range of 4%-6% is still appropriate for a full year NOI growth assumption, our expectation is now 50 basis points above our initial guidance, just above the mid-point of this range. This revision, along with the improved expectations for our lease-up properties, adds \$0.05 per share to our projection for the full year, bringing the mid-point of our guidance to \$4.00 per share.

That's all we have in the way of prepared comments.