CONFERENCE CALL TRANSCRIPT: 2Q2013
August 1, 2013 9:00 AM CDT

Leslie Wolfgang
Good morning. This is Leslie Wolfgang, Director of Investor Relations for MAA. With me are Eric Bolton, our CEO, Al Campbell, our CFO and Tom Grimes, our COO.

Before we begin with our prepared comments this morning, I want to point out, that as part of the discussion, company management will be making forward-looking statements. Actual results may differ materially from our projections. We encourage you to 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.

In addition, I want to point out that in this morning's call management will be making some prepared comments related to the pending merger of MAA and Colonial Properties Trust. However, because we are currently in the SEC review process of the joint proxy statement/prospectus related to the pending merger transaction, management will not be taking questions related to the proposed merger. Q&A at the end of the call will be limited to matters related to our second quarter earnings.

In connection with the proposed transaction, MAA will include a definitive joint proxy statement of the company and Colonial in a registration statement filed with the SEC that will also serve as a prospectus for MAA. INVESTORS ARE URGED TO READ THE JOINT PROXY STATEMENT/PROSPECTUS AND OTHER RELEVANT DOCUMENTS FILED WITH THE SEC IF AND WHEN THEY BECOME AVAILABLE, BECAUSE THEY WILL CONTAIN IMPORTANT INFORMATION. You may obtain a free copy of the definitive joint proxy statement/prospectus filed with the SEC at the SEC's website at *www.sec.gov* or on our website at www.maac.com or by contacting our Investor Relations department at 901-682-6600.

MAA and our directors and executive officers and other members of management and employees may be deemed to be participants in the solicitation of proxies in respect of the proposed transaction. You can find information about the company's executive officers and directors in our definitive proxy statement filed with the SEC on March 22, 2013.

This shall not constitute an offer to sell or the solicitation of an offer to buy any securities, nor shall there be any sale of securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction. No offering of securities shall be made except by means of a prospectus meeting the requirements of Section 10 of the U.S. Securities Act of 1933, as amended.

I'll now turn the call over to Eric.

Eric Bolton
Thanks Leslie and good morning everyone. Before getting into a discussion of our results for the quarter, I want to provide a quick update on progress surrounding our merger with Colonial Properties. As Leslie mentioned, we are in the SEC review process of the joint proxy statement/prospectus. We expect to have the definitive Proxy mailed out to shareholders as soon as that process is complete. We continue to believe that we will be able to close the transaction sometime in September.

At this point we are well into preparations for the integration of the two operating platforms. We anticipate having all the appropriate transaction, execution and reporting tasks up and running on a consolidated basis at closing. As outlined in our earlier announcement, we expect the full systems integration process will take place over the course of the next 18 months. Our management team is in full consolidation planning and execution mode and we remain comfortable with the earlier assumptions made surrounding synergy gains and the various benefits to be derived from this combination, which were outlined in our prior announcements and presented at the NAREIT conference back in June. Assuming the transaction closes as expected, when we release our third-quarter results we will be in a position to provide an up-dated earnings outlook for 2013 on a combined company basis. The key take-aways from this morning's call are that we continue to feel good about the projections provided at the time we announced the merger on June 3rd, and that integration work is fully underway and proceeding very well.

Assuming we are able to close our merger sometime during September, our reported results for the quarter and for full-year 2013 will obviously have a number of merger related and one-time transactions included. The overall merger transaction will be recorded as an acquisition for accounting purposes, which, depending on the exact timing of the close, will potentially require the inclusion of MAA standalone results for a portion of the third quarter, with combined results for the remainder of the quarter. MAA will record acquired assets at market value and incur a significant portion of the total expected deal costs on the closing date. We intend to provide you with clear communication of the details with our third quarter release, which will be following the expected closing date of the merger.

I also want to take a moment to offer my thanks and appreciation to our hard-working associates at both MAA and Colonial. As with most merger transactions there has been a significant amount of work going on, a lot of late nights, and some tough personnel decisions in connection with putting the two organizations together…while also of course staying focused on taking care of our existing residents, properties and operations. Tom Lowder and his management team have been terrific to work with through this process and we look forward to completing the merger and executing on a successful integration. I want to thank all of our associates at both MAA and Colonial for their hard work and service to our residents, to our shareholders and to each other.

And with that brief update on the merger, I'll now turn my comments to discussion of the quarter's results. As detailed in yesterday's earnings release, operating performance reflects continued solid leasing conditions across the portfolio with same store physical occupancy at the end of the quarter at 96%, slightly ahead of last year. Average effective rent for the quarter increased 4.1% as compared to prior year and grew 1.2% on a sequential quarter basis. Resident turnover remains low with our 12-month turn rate through the second quarter at 57.2%, up slightly from 56.5% at the same point last year. Move-outs associated with buying a house generated 20% of our turnover through the first half of this year, which is fairly consistent with last year at 19%. Move-outs associated with renting a house continues to not generate any meaningful pressure driving only 6.8% of our move-outs year to date which is also fairly consistent with what we've experienced over the past several quarters. Move-outs due to the amount of rent increase we were asking have moved down slightly from last year at 12% of our move-outs year to date, as compared to 13% last year. We continue to be encouraged by the steady growth in rents. With our revenue growth year-to-date at 4.6% and based on the full year revenue guidance of 5% to 6%, we obviously expect that current pricing trends will continue over the second half of the year.

As expected at this point in the cycle, the large market segment of the portfolio continues to deliver better pricing performance when compared to the secondary market segment. Austin, Houston and Nashville delivered some of our best results in the second quarter. We continue to believe that forecasted new supply across our portfolio is unlikely to materially weaken leasing conditions over the next several quarters. The Texas markets continue to enjoy healthy employment conditions and should absorb the new supply coming on line without meaningful deterioration in pricing trends. The outlook for new job growth and new supply across our large tier markets in 2014 remains healthy at almost 8 to 1, well ahead of what is needed to generate positive absorption and drive what we believe will be continued solid rent growth exceeding long-term averages. And as employment trends continue to improve across our secondary markets, we are excited about strengthening leasing prospects and rent growth from this segment of the portfolio. As we've commented in the past, our secondary markets generally tend to not be as exposed to supply pressure and we believe bring a stabilizing influence to the overall portfolio's performance as new development ramps up in this phase of the cycle.

Leasing at our four new lease-up properties continues to go well and was slightly ahead of our forecast. We've been particularly pleased with the leasing pace at our Phase II lease-up at 1225 South Church in Charlotte. After having received the last of the 210 units in April, the property is already 98% leased and almost 80% occupied. This is very strong leasing and well ahead of our proforma expectations. We expect to stabilize all four lease-up projects around year-end.

We remain active with capital recycling plans with four properties sold during the quarter and two properties acquired. From all that we've seen, cap rates haven't moved in the past few months and investor appetite for apartment real estate in both large and secondary markets remains strong.

That is all I have in the way of prepared comments and I'll now turn the call over to Al.

Al Campbell
Thank you Eric, and good morning everyone. I'll provide a few comments on the company's second quarter results, balance sheet activity for the quarter, and on our updated view of pre-merger guidance.

Core FFO for the quarter, which excludes the $5.7 million in merger related costs, was $56.6 million, or $1.27 per share, which is $0.05 above the mid-point of previous guidance and 12% above the prior year. Year-to-date, core FFO on the same basis, was $111.8 million, or $2.53 per share, which was 13% above the prior year.

Same store NOI of 5.5% for the quarter, was in-line with our expectations, as continued strong occupancy and pricing strength supported total revenue growth of 4.4% for the quarter. Same store operating expenses increased 2.9% for the quarter, with property taxes and insurance producing the largest portion of the increase. Operating expenses for the quarter, excluding taxes and insurance, increased only 1.4%.

Year-to-date, same store NOI increased 6.6% based on a 4.6% increase in revenues and 1.7% increase in operating expenses. We expect continued solid revenue growth over the remainder of the year, with only slight moderation in the fourth quarter. Operating expense growth over the remainder of the year will be impacted by real estate taxes due to challenging prior year comparisons. Credits recorded in the back half of the prior year produced only a 1.5% growth in real estate taxes resulting in a tough comparison over the next two quarters, as compared to last year.

Outperformance in FFO results for the second quarter was mainly produced by recent development communities leasing ahead of plan, revised timing of financing transactions and lower than projected G&A costs for the quarter. These items combined to produce about $0.04 per share favorability for the second quarter, with an additional penny per share coming from gains on the settlement of casualty claims, which are included in FFO per NAREIT's definition.

During the second quarter we acquired two apartment communities. One community was acquired from Mid-America Multifamily Fund I, which was the only remaining community in the Fund, and that Fund is now closed. The second community was purchased during lease-up, and was 72% occupied when acquired. The gross combined purchase price for both communities was $71.1 million, including an $18.3 million loan related to the Fund I community which was assumed by the company.

We also sold four communities during the second quarter, for total gross proceeds of $74 million. The four communities averaged 23 years of age and were sold for a blended cap rate of 6.6% (based on in-place NOI after a 4% management fee and $350/unit capex reserve). Also, these sales represented an exit from two secondary markets for the company, Athens, GA and Melbourne, FL.

Progress on the company's development pipeline continued during the second quarter, with one community being completed and moving into the lease-up group during the quarter. We now have two communities remaining under construction, with an expected total cost of $73.8 million for 564 units, of which $36 million remains to be funded. We funded a total of $8.6 million of development costs in the second quarter, and expect an additional $25 million to be funded over the remainder of the year.

We also have four communities remaining in lease-up, three developed by MAA and one recently acquired, which were 82% occupied on a combined basis at the end of the quarter. We expect three of the communities to be fully stabilized by the fourth quarter, with the final community projected to be stabilized in the first quarter of next year.

We completed a number of key balance sheet plans during the second quarter. During May we entered forward interest rate swap agreements to effectively lock the rate on $150 million of our bond financing planned for later this year. Our timing proved fortunate as we were able to complete the trades before the recent rise in treasury rates. Given the expected timing of the pending merger, we now expect our bond offering will occur late third quarter or early fourth quarter.

Also, after the end of the quarter, we received commitments from our bank group for a new upsized unsecured credit facility. The new facility will provide initial borrowing capacity of $500 million, with expansion capacity up to $800 million.

The new facility reflects current (improved) market pricing and provides the capacity for liquidity and growth necessary to support the planned larger company. Closing of the new facility is expected over the next couple of weeks.

Our balance sheet ended the quarter in great position: company leverage (defined as net-debt-to-gross assets) was 43.2%, total debt was 6.3 times EBITDA, and MAA's fixed charge coverage ratio (defined as EBITDA to interest expense) was 4.2 times. At the end of the quarter, 88% of our outstanding debt was fixed or hedged against rising interest rates over the next four and a half years, and our total average interest rate was 3.5%. We plan to increase the duration of our interest rate maturities with the long-term fixed rate bond financing planned later this year.

Finally, given the second quarter performance, we're increasing our FFO guidance for the full year. We are now projecting stand-alone FFO, excluding merger related costs to be \$4.83 to \$5.03 per share, which is \$4.93 at the mid-point. This new range represents a \$0.06 per share increase above the mid-point of previous guidance.

We're maintaining our same store guidance, which continues to project solid pricing performance and stable occupancy, supporting 4% to 5% revenue growth for the full year. We expect operating expenses over the remainder of the year to increase 3% to 4% in total, with real estate taxes producing the primary expense pressure for the year.

Given the pending merger, we now expect timing of funding transactions, primarily the planned bond transaction, to produce about \$0.01 per share of additional favorability, as it's now expected to occur later than previously planned.

AFFO for the full year, on a stand-alone basis and before merger related costs, is now expected to be \$4.21 to \$4.41 per share. Our current annual dividend rate is \$2.78 per share.

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