CONFERENCE CALL TRANSCRIPT: 4Q2013
February 6, 2014 9:00 AM CDT

Leslie Wolfgang
Good morning. This is Leslie Wolfgang, Corporate Secretary for MAA. With me are Eric Bolton, our CEO, Al Campbell, our CFO, Tom Grimes, our COO, and Tim Argo, SVP of Finance.

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.

I’ll now turn the call over to Eric.

Eric Bolton
Thanks Leslie. Good morning. We appreciate everyone joining our call this morning.

Core FFO for the fourth quarter of $1.20 per share was six cents per share better than we had expected with higher NOI performance and lower G&A costs driving the favorable result. Same store physical occupancy at year end was a solid 95% and put us in a good position heading into 2014. During the fourth quarter same store rent per unit increased 3.2% as compared to the prior year.

Resident turnover remains low with the same store portfolio posting a 5% decline compared to the prior year. Move-outs associated with buying a home were consistent with the prior year driving 21% of total move-outs. Move-outs associated with renting a house continue to be a non-factor and remain low driving only 6% of our total move-outs.

As outlined in our 2014 guidance, we expect leasing conditions across the portfolio to remain healthy this year with same store revenues increasing 3.5% to 4.5%, occupancy holding steady and rent growth driving revenues. Looking at the latest forecast of new supply deliveries and job growth, we expect leasing fundamentals across our markets in 2014 will remain steady as the ratio of new jobs to new supply is forecasted to be in the 8 to 1 range across our same store portfolio. We expect to see our best performances in Atlanta, Dallas, Houston,
Phoenix and Nashville. The ratio for our secondary market segment of the portfolio continues to also suggest steady leasing conditions with the ratio of new jobs to new supply improving slightly in 2014 to a ratio of 10 to 1. Our portfolio strategy has historically focused on an objective of achieving a balanced or “full cycle” performance profile, with a goal of lessening some of cyclicality in performance that is generally driven by new supply pressures. We believe that our newly merged portfolio with Colonial has enabled us to retain and in fact strengthen this objective.

Our redevelopment program completed just over 2,500 units in 2013 and generated on average an incremental 11% increase in rents. We are expanding the program this year as a result of our merger and expect to complete redevelopment on approximately 4,000 units in 2014. Our expanded program this year will remain consistent with the parameters that we’ve been executing on for the past several years with a focus on unit interior rehab and above market rent increases in the 10% range.

Leasing momentum continues to go well at our four lease-up properties and we expect to have the entire pipeline stabilized by mid-year. In addition, construction continues to be on budget at our five new development properties with our projects in Orlando and Charleston scheduled to complete construction this quarter. We expect to achieve stabilization on this new development pipeline starting late this year and into early 2015. While we are currently looking at a number of other new development projects, we expect future funding commitments associated with new development to moderate for MAA over the next year or two. We instead prefer to be focused on sourcing opportunistic acquisition opportunities of new development at this point in the cycle.

We continue to actively work on recycling capital from the remaining commercial properties and land assets acquired in our merger with Colonial. We completed the sale of the retail center Colonial Town Park in the fourth quarter and are currently negotiating sale contracts on four of the remaining five operating commercial properties. In addition, we remain committed to a program of steadily recycling capital from a number of older multifamily properties closing on the sale of $131M of apartment properties in 2013. We expect to increase our disposition program this year and are looking to sell approximately $150M of apartment assets. In addition, as mentioned we are also focused on continuing to recycle the non-core commercial and land assets from the former Colonial balance sheet and as a result expect to sell a little over $300M of assets this year.

And while the acquisition market remains very competitive, I’m hopeful that one of the outcomes from the increase in new development activity in a number of markets is more opportunities to opportunistically add new properties to the portfolio later this year and into 2015. We’ve targeted $250M in new acquisitions this year with approximately $60 million of this associated with our planned
buyout of our partner’s interest in our joint venture, Mid-America Multifamily Fund II, LLC.

Merger integration activities continue to go well and we’re making great progress on establishing a fully consolidated operating and reporting platform. Thus far our team has completed the conversion and consolidation of all payroll, HR systems, general ledger and accounts payable. We’re now underway with the conversion to a common property management system and expect to have this important process completed by early summer. As we capture full consolidation of our operating and pricing systems, we remain confident in the opportunities to be captured from higher efficiency and scale.

I want to also express my thanks and appreciation to all of our folks who have been working so hard to ensure we were in a position to operate and execute as a combined platform in 2014. We still have more integration work to do and I believe some great opportunity to capture later this year and into 2015, but we’re off to a terrific start and I appreciate the hard work and great success thus far.

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

Al Campbell
Thank you Eric, and good morning everyone. I'll provide some additional commentary on the company's fourth quarter earnings performance, balance sheet activity for the quarter, and finally on our initial earnings guidance for 2014.

As outlined in the release, given the October 1st close of the Colonial merger, fourth quarter results reflect a full quarter of combined activity, with year-to-date results representing three quarters of MAA stand-alone activity and one quarter of combined operation.

Core FFO for fourth the quarter, which excludes non-routine items, primarily merger and integration costs, was $95 million, or $1.20 per share, which was $0.06 per share above the mid-point of previous guidance provided. About 1/3rd (or $0.02 per share) of the favorable performance for the quarter was produced by the combined same store portfolio, primarily from favorable operating expense performance. The remaining 2/3rds (or $0.04 per share) was produced by favorable performance from G&A and interest expense combined, mainly related to merger related activities.

The combined same store portfolio NOI grew 3.5% for the quarter, based on 3.2% growth in revenues, which was produced by a 3.2% growth in effective rent. Operating expenses grew 2.8% for the quarter, despite pressure from a 7% growth in real estate taxes (about ¼ of total operating expenses). The legacy MAA and Colonial portfolios performed essentially in-line during the fourth quarter, with the Colonial portfolio operating expenses benefiting in the fourth
quarter from initial savings on combining the insurance programs (which produced around 60bps expense growth improvement).

As mentioned in the release, we acquired one recently developed community, located in Fredericksburg, VA, during the fourth quarter for $45.2 million, and sold one older community, located in La Grange, GA for $10.4 million. These transactions bring our year-to-date acquisitions volume to $129.2 million, including the remaining interest of joint venture communities acquired, and our disposition volume to $131.3 million in total for the year.

Following the end of the fourth quarter, we acquired the remaining two-thirds interest in two communities from Mid-America Multifamily Fund II, our remaining legacy MAA joint venture, for $38.8, and we assumed loans totaling $31.7 million. Also following the end of the quarter, we closed on the sale of a community, located in Columbus, GA, for gross proceeds of $10.6 million. This sale completed our disposition plans originally projected to close in 2013.

Construction and lease-up on our development pipeline continue to progress well. We funded an additional $25 million toward our multifamily development pipeline during the fourth quarter. We now have five communities, totaling 1,461 units, under construction, with $68.5 million remaining to complete them. We also had four communities, remaining in lease-up at the end of the year, with average occupancy of 82%. Two of the communities are expected to stabilize during the first quarter of 2014, with the remaining two expected to stabilize during the second quarter.

Following our merger with Colonial, our balance sheet remains strong and flexible. During the fourth quarter we completed our inaugural public bond offering, issuing $350 million in ten year unsecured notes, and we successfully exchanged $392 million (or 87%) of the outstanding Colonial public bonds for MAA notes, leaving $742 of total MAA public bonds outstanding at year-end. The exchange eliminates redundant and costly reporting requirements, and the increased volume of bonds outstanding through MAA’s operating partnership is expected to enhance investor liquidity.

At year-end, 62% of our assets (at cost) are unencumbered, 48% of our debt is unsecured, and 97% of our debt is fixed or hedged against rising interest rates, with maturities laddered well over the next few years. Our leverage was 42.4% based on gross assets. Our coverage ratios also remain strong with total interest coverage of 3.4 times and fixed charge coverage of 3.6 times for the fourth quarter, based on Recurring EBITDA. At year-end, we had $586 million of cash and available credit under our unsecured line of credit.

Finally, we’re providing initial guidance for 2014 with the release. There will be some continued noise related to the merger in reported earnings for 2014, so we’re giving guidance on a Core FFO basis, excluding merger related and other
non-routine items, with the goal of providing more clarity and comparability to prior period results. We’ve also added a fair amount of detail in our Supplemental Data schedules with the press release, to help model company performance.

Core FFO for 2014 is projected to be $4.80 to $5.00 per Share, which is $4.90 at the mid-point, based on projected average shares of about 79.1 million. As we expected, Core FFO for 2014 is impacted by the initial dilution from the non-productive development pipeline and land parcels acquired with the Colonial merger, along with the continued recycling of commercial and multifamily assets. As previously outlined in our investor presentations, we believe there is a combined $0.30 to $0.45 per Share of additional earnings to capture over the next few years (beyond the $25 million of stated synergies) as we continue to bring the Colonial assets acquired to the same productive level as our pre-merger balance sheet, which more than offsets this initial dilution, producing long term accretion. Core FFO per Share is expected to range between $1.12 to $1.24 in the first quarter, and between $1.18 and $1.30 for the remaining three quarters of 2014.

The primary driver of 2014 performance is expected to be continued steady NOI growth from our same store portfolio. Our estimate includes full year same store NOI growth (for the combined portfolio) of 4% to 5%, based on a 3.5% to 4.5% growth in revenues, and a 3.0% to 4.0% growth in operating expenses. We generally expect continued strong pricing performance and stable occupancy levels through the year. We expect real estate taxes to be a continued area of pressure on operating expenses, projected to increase 6% to 7% for 2014.

As Eric mentioned, we expect to be net sellers in 2014, with acquisition volume projected to range $200 million to $300 million for the year, and disposition volume projected to range $250 million to $350 million. We also plan to fund an additional $65 million to $70 million toward completion of the current development pipeline.

Total overhead (consisting of property management and G&A costs combined) is expected to range between $55 million and $57 million for the full year, with the full $25 million of projected synergy captured by year-end (on a run-rate basis).

Total combined transaction costs related to the merger are expected to be $55 million to $60 million in total, including $32.4 million incurred by MAA in 2013 and $18.5 million incurred pre-merger by Colonial. We expect to incur an additional $9 million to $10 million of combined merger and integration costs during 2014. These transaction and integration costs are all in line with our original underwriting and expectations.

Other key assumptions include plans to access the public bond market around mid-year to refinance $400 million of maturing debt, and given the current level of
projected asset dispositions, our current expectations don’t include the need for any new equity during the year. We expect our total leverage (defined as net-debt-to-gross assets) to end to the year between 42% and 45%.