



CONFERENCE CALL TRANSCRIPT: 1Q2014

May 1, 2014 9:00 AM CDT

Tim Argo

Good morning. This is Tim Argo, SVP of Finance 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. Forward looking statements are made based on current expectations, assumptions and beliefs, as well as information available to us at this time. 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. We undertake no obligation to update any information discussed on this conference call. During this call, we'll also discuss certain non-GAAP financial measures. Reconciliations to comparable GAAP measures can be found in our earnings release and supplemental financial data.

I'll now turn the call over to Eric.

Eric Bolton

Thanks, Tim, and good morning. First quarter results were ahead of the mid-point of our guidance as operating performance came in a little better than we expected and G&A costs were lower. As outlined in our earnings release, given the better than expected Q1 result, we have increased our forecast of Core FFO and AFFO performance for the year.

During the quarter we captured steady growth in effective rent per unit; increasing 3.2% across the combined same store portfolio when compared to the prior year, which is consistent with the preceding 4th quarter's performance. Our large market segment of the portfolio continues to out-perform at this point in the cycle, capturing 4.0% growth in effective rent per unit. Our strongest performances in rent growth came from Houston, Austin and Atlanta. Rent growth in Memphis, Little Rock and Huntsville lagged within our secondary markets and weighed on revenue performance for that segment of the portfolio.

Physical occupancy at quarter was a solid 95.5%, a 50 basis point decrease from the 96% posted at the same time last year. Resident turnover declined 7% during the quarter when compared to last year and remains low at 56.8% on a

rolling 12-month basis. During the quarter, move-outs to buy a house declined by a significant 16% from prior year and constituted 18% of our total turnover.

As we head into the spring leasing season, rent growth is increasing and we are encouraged with the trends. During April, rents for new move-in residents increased by an average of 3.1% on year-over-year basis and lease renewals for renewing residents increased 7.1%.

As AI will touch on, our largest line item pressure in operating expenses was property taxes, up 9.8% in Q1. While still early, we continue to believe that real estate taxes will increase in the range of 6% to 7% for the year.

Based on first quarter trends and our outlook for the rest of the year, we remain comfortable with our earlier guidance calling for combined same store NOI growth in the 4% to 5% range for all of 2014.

During the quarter construction wrapped up on our Randall Lakes property in Orlando with pre-leased occupancy currently standing at 55%. We expect to stabilize occupancy here in the first quarter of next year. We expect to wrap up construction on two other projects this quarter, our Lake Mary property expansion in Orlando and the South End property in Charlotte. Leasing continues to go well and in line with our forecasts at both properties. Of the 2,200 units we currently have under development or lease-up, we expect to have 2,000 of the units productive by year end and fully contributing to core FFO growth in 2015.

The transaction market remains very competitive with the only acquisition completed during the quarter associated with our planned buy-out of the joint venture we had in place. We have two properties remaining in our JV and we expect to close on the acquisition of one of these properties this second quarter. We are currently under contract to sell the other property. During the quarter we closed on the disposition of one apartment property and are currently marketing for sale another 8 properties, including the JV asset just mentioned. We are finding a high level of interest and continue to feel good about achieving our planned dispositions in the range of \$125M to \$175M.

In addition to these apartment property dispositions, as previously outlined we are proceeding with the disposition of the remaining commercial properties acquired in our merger with Colonial Properties. We made good progress in the first quarter with commercial properties now constituting less than 1% of our total gross assets. We are actively working on several other transactions and expect to be largely complete with this effort by year end.

Our management team continues to make terrific progress in completing the remaining integration activities surrounding our merger with Colonial Properties. We expect to have the property management software integration complete in the next month. Accounts payable, financial reporting, payroll and all other key

system consolidation activities have been completed. Our team has worked hard to complete these integration efforts before we get to the busy summer leasing season and they've done a terrific job. I really appreciate all the hard work. I'm confident that we are now well positioned to begin executing on the various opportunities that we've previously identified surrounding our merger and look forward to capturing more efficiency and enhanced margins over the next several quarters.

That's 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 first quarter earnings performance, balance sheet activity for the quarter, and finally on updated earnings guidance for the year.

FFO for the quarter was \$97.4 million, or \$1.23 per share. Core FFO, which excludes non-routine items, primarily merger & integration costs, was \$95.6 million, or \$1.21 per share, which was \$0.03 per share above the mid-point of guidance provided. About half of the favorable performance compared to our forecast came from property operating results, as both the combined same store portfolio and non-same store portfolios slightly outperformed. The remaining favorability came from lower than projected G&A costs, as bonuses, health insurance, and professional fees were all below projections for the quarter.

The combined same store portfolio NOI grew 2.6% for the quarter, based on 3.1% growth in revenues, which was produced by a 3.2% growth in effective rents. Property operating expenses increased 3.9% for the quarter, with over two thirds of the increase coming from real estate taxes, which grew 9.8% over the prior year. Our forecast for real estate tax expense growth for the full year remains at 6% to 7%, with the first quarter comparison impacted by prior year credits and the timing of accrual adjustments during the prior year.

During the first quarter, we acquired the remaining two-thirds interest in two communities from Mid-America Multifamily Fund II, our legacy MAA joint venture, for \$38.8 million, and we assumed loans totaling \$31.7 million. We also closed on the sale of one multifamily community, located in Columbus, GA, for gross proceeds of \$10.6 million, which produced a gain of \$5.5 million recorded during the first quarter.

As mentioned in the release, during the first quarter, we sold two operating commercial assets acquired with the Colonial merger, Brookwood Village Mall and CC Brookwood Village, an office asset, for a combined \$80 million in gross proceeds. Also, during the first quarter, we sold five commercial land parcels acquired with the Colonial merger for combined gross proceeds of about \$3.3 million. The company recorded total gains of \$3.1 million during the first quarter

related to the sale of these commercial and non-core assets we acquired from Colonial.

Construction and lease-up of our development pipeline continue to progress well. We funded an additional \$16 million of development costs during the first quarter and fully completed one community, Randal Lakes, in Orlando, FL. We now have four communities, totaling 999 units, under construction, with \$47.3 million of projected funding remaining to complete development. We also had four communities, in lease-up at the end of the quarter, with an average occupancy of 66%. Three of the remaining lease-up communities and two of the development communities are now expected to stabilize during 2014, with the remaining communities in lease-up and construction expected to stabilize in 2015.

Our balance remains in great position. At the end of the first quarter, company leverage, based on market cap, was 39%, and based on gross assets, was 41.8%, which is 190bps below the prior year. Perhaps more important is that at quarter-end, total debt was only 6.2 times Recurring EBITDA, and our fixed charge coverage ratio was 3.6 times, both comparing well to the multifamily peer group. At the end of the quarter, 97% of our debt was fixed or hedged against rising interest rates for an average of 4.0 years. Since year-end, we have executed \$250 million in interest rate swaps to effectively lock a portion of the interest rate on future financing transactions, which we expect to further increase the duration of our interest rate protection. At quarter end, MAA's unencumbered asset pool was 63.9% of gross assets, and we had about \$618 million of cash and credit available under our unsecured line of credit.

Finally, based on first quarter performance, we're increasing our Core FFO guidance for the full year by \$0.04 per share, at the mid-point. We now project Core FFO to be between \$4.84 and \$5.04 for the full year. Quarterly Core FFO per share is expected to be \$1.15 to \$1.27 for the second quarter, \$1.19 to \$1.31 for the third quarter, and \$1.21 to \$1.33 for the fourth quarter.

Core AFFO for the full year is now expected to be \$4.09 to \$4.29 per share, which represents a 70% dividend payout at the mid-point.