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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. 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.

During this call, we will 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 everyone.

As recapped in yesterday’s earnings release, we had a busy end to 2016. A significant amount of our focus was on completing the close of the merger with Post Properties. Our merger was closed fully in line with our original expectations and we had a successful launch of Day One consolidated operations on December 1st. In addition to our merger activity, during the quarter, we were also successful closing on the sale of an additional five properties and completed the acquisition of a new lease-up property in the Charleston, SC market. And, finally, during the quarter, we continued to make good progress on our development and lease-up activities, capturing solid same store results and delivering overall Core FFO results that were slightly ahead of our expectations.

With the merger transaction now closed and our operating and reporting systems producing consolidated information, our attention now turns to completing the full integration of all support and reporting systems, reconciling more detailed
policies and procedures, and ultimately positioning our platform to fully harvest the long-term benefits of the merger. I want to thank our team of associates who are performing at a high level during a very busy time for our company. We’ve been through this merger process before and have developed a lot of strength and capabilities that are clearly on display.

Upon announcing our merger with Post, we outlined the fact that we expected the first year of consolidated operations would include some initial earnings dilution as we introduced three key variables that would have a near-term dilutive impact on year one earnings. Specifically, those variables were the fact that we were bringing a $480M development pipeline onto the balance sheet that was not yet productive, secondly, we acquired a portfolio of properties exposed to different submarkets that, for the near-term, would be facing higher supply pressure and, finally, that in combining the two balance sheets we were meaningfully strengthening the MAA balance sheet through deleveraging the company by over 600 basis points. As outlined in our earnings release, our initial guidance for 2017 projects FFO per share of $5.72 to $5.92, or $5.82 at the mid-point, which includes $0.15 per share of non-recurring merger and integration costs that we expect to incur as we wrap up consolidation activities. It’s important to note that excluding the non-recurring merger and integration costs from both 2016 results and our 2017 forecast, the midpoint of our forecast represents only a 1.9% decline from prior year…this is despite the short-term pressure from the three factors just noted that will dilute earnings in 2017. This is a better result than we expected.

Our work to date on consolidating and reconciling property operations between MAA and Post has us even more enthused about the opportunities surrounding the long-term value proposition from the merger. Our work to date on the consolidation of back-office systems, reconciliation of property level practices, rework of existing contracts to capture the benefits of our enhanced scale, and the initiation of significant unit interior redevelopment opportunities cause us to remain very excited about the merger. We expect the NOI margin enhancement opportunities we’ve previously discussed to become increasingly evident as we approach the end of this year and into 2018. In addition, we remain confident the $20 million of G&A and overhead synergy opportunity that we previously identified will be fully captured in 2018.

Tom will discuss in more detail what we are seeing in the way of leasing conditions across the portfolio, but while demand remains strong, we expect the well documented pick-up in new supply trends will cause some moderation in rent growth versus prior year. Our Combined Adjusted Same Store revenue guidance of 3.0% to 3.5% is largely a result of expected rent growth and we expect to hold continued strong occupancy at around 96%, consistent with the performance in 2016. Demand for apartment housing remains strong across our markets with leasing traffic consistent to what we’ve been experiencing over the past year. Resident turnover or move-outs in the fourth quarter were down as
compared to prior year. Encouragingly, based on the trends we see with new permitting and starts across the majority of our markets, coupled with the feedback we receive from developers who find today’s construction financing market significantly more challenging, we remain optimistic that our markets will continue to hold up well as employment markets and wage growth continue to support solid demand.

As noted in yesterday’s earnings release we were successful in acquiring one property in the fourth quarter. The acquisition has attributes consistent with essentially each of the deals we’ve acquired over the past couple of years. Namely, a high-end, newly developed property by a regional developer, undergoing initial lease-up in a sub-market seeing near-term supply pressure, which created an opportunity for a compelling acquisition. We continue to look at a number of additional opportunities and find that overall cap rates appear to be holding up and generally in line to what we’ve seen over the past year. Our guidance for acquisitions in 2017 is in line with performance in 2016, but we remain hopeful that as the year unfolds we may see more opportunities that meet with our long-established disciplined approach to deploying capital.

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

Tom Grimes

Thank you Eric and good morning everyone. Our fourth quarter same store NOI performance for legacy MAA of 4.2% was driven by revenue growth of 3.6% over the prior year. On a sequential basis, we matched last year’s strong seasonal revenue result and declined just 20bps from the third quarter to the fourth. The top line was driven by rent growth as all in place effective rents increased 3.9% from the prior year.

Occupancy and exposure trends are strong. January’s Average daily physical occupancy of 96.0% matched January of last year. Our 60-day exposure, which is current vacancy plus all notices for a 60-day period is just 7.3%. As expected, our pricing trends are showing some signs of moderation. During the quarter, blended lease prices on a lease over lease basis increased 2%.

On the market front, the vibrant job growth of the large markets is driving strong revenue results. They were led by Fort Worth, Atlanta, and Orlando.

The secondary markets continued their steady revenue performance. Revenue growth in Memphis, Greenville, and Charleston stood out.

In both portfolios, Houston remains our only market level worry bead. After the merger, Houston represents just 3.6% of our portfolio. We will continue to monitor closely and protect occupancy in this market. At the end of January, our
combined Houston market’s daily occupancy was 94.3% and 60-day exposure was just 7.3%.

Renter demand remains steady and our current residents continue to choose to stay with us. Move outs for the portfolio were down for the quarter by 9% over the prior year and turnover dropped again to a low 50.3% on a rolling twelve month basis. Move outs to home buying dropped 5% and move outs to renting a house declined 14%.

The integration of Post is off to a good start. Progress is being made reconciling our pricing platform. We have centralized our pricing process and are now aligning pricing practices. On the redevelopment front, opportunities that have been identified are greater than we initially expected. On the Post portfolio, we believe we have a pipeline of 13,000 units. We have already begun to upgrade units in the Post portfolio and look forward to updating you further throughout the year.

For the MAA portfolio, during the quarter we completed over 1,300 interior unit upgrades, bringing our total units redeveloped this year to just over 6,800. On legacy MAA, our redevelopment pipeline of 15,000-20,000 units remains robust. On a combined basis, our total redevelopment pipeline is in the neighborhood of 30,000 units.

Our active lease-up communities are performing well. Rivers Walk II stabilized on schedule in the fourth quarter. Post Parkside at Wade II is 61% leased and on schedule to stabilize in the third quarter of this year. Colonial Grand at Randal Lakes II in Orlando is 69% leased and on schedule to stabilize at the end of this year. Post Afton Oaks is 15% leased and in line with our expectations. Given the conditions in Houston, we have planned for it to stabilize in the second quarter of 2018. Our new acquisition community in Charleston is on track. The Retreat at West Creek Phase II has not delivered yet but is already an incredibly good 84% pre-leased.

We are pleased with our progress thus far on the Post merger. The operating structure of the combined companies is in place and functioning well. There is a high degree over overlap in both systems and markets. The combined team is quite capable and we are confident that by reconciling the practices between the two companies that we will fully capture the opportunities of this merger.

Al Campbell

Thank you Tom and good morning everyone. I’ll provide some additional commentary on the company’s fourth quarter earnings performance, balance sheet activity, and finally on initial guidance for 2017.
Net income available for common shareholders was $0.44 per diluted common share for the quarter. Core FFO for the quarter was $1.50 per share, which was $0.01 per share above the mid-point of previous guidance despite $0.02 of dilution from the Post merger, which was not included in previous guidance. Operating performance for the quarter continued to be strong, in-line with expectations. G&A expenses, interest expense, and disposition timing combined to produce the majority of a $0.03 per share favorable performance for the quarter, which was partially offset by the $0.02 dilution from the Post merger. Core AFFO for the quarter was $1.40 per share, which represents a 4.5% growth over the prior year, despite the Post dilution.

Core FFO for the full year was $5.91 per share, which represents 7% growth over the prior year. Core AFFO for the year was $5.29 per share, which represents 10% growth over the prior year and a very healthy 63% dividend payout ratio for the year, well below the sector average.

During the fourth quarter, we acquired one community for $70 million and sold five communities for $113 million in gross proceeds, completing our capital recycling plans for the year. Total gains of $32 million were recognized related to the dispositions during the fourth quarter.

For the full year, five acquired communities combined to total $334 million of capital investment, while twelve communities were sold, producing combined gross proceeds of $265 million and $80 million of recorded gains on sale.

We also funded $16 million of additional development costs during the quarter, bringing total development funding for the year to $59 million. Our total development pipeline at year-end now contains nine communities, including six acquired from Post, with total expected development costs of $562 million, of which $200 million remains to be funded. We expect NOI yields to average 6.4% once the communities are completed and stabilized.

During the fourth quarter, we completed several important financing goals for the company. First, we assumed over $900 million of debt in the Post merger, with minimal transfer cost. In conjunction with this, we expanded our credit facility to $1 billion (from $750 million), and refinanced the $300 million term loan acquired from Post to extend the maturity date and improve the terms. Also, as mentioned in our prior quarter release, we postponed our original plans for a bond deal in late 2016 to allow the Post merger to close and enable us to capture the benefits of the additional strength from the combined balance sheets prior to completing a new deal. Immediately following the merger, Standard and Poor’s upgraded our investment grade rating to BBB+ (from BBB), which improved our current pricing on several of our borrowings, including our credit facility and term loans, and our expected pricing for future bond financings.
At year-end, our leverage (defined as Debt to Total Assets, per our public bond covenants) was 33.9%, which is 700 bps lower than the previous year-end, and our unencumbered assets were over 80% of Gross Assets. We also had over $540 million of combined cash and capacity under our unsecured credit facility to provide protection and support for our business plans.

Finally, we did provide initial earnings guidance for 2017 with the release. You will notice that we are providing guidance for net income per diluted common share, which is reconciled to FFO and AFFO in the supplement. Also, given the recent industry focus toward one common (non-GAAP) earnings measure and a desire to simplify our earnings presentation, we are providing FFO guidance only on a NAREIT defined basis for 2017. We will continue to clearly disclose significant non-core items, such as merger and integration costs and the mark-to-market debt adjustment, in order to allow modeling as desired.

Net income per diluted common share is projected to be $1.82 to $2.02 for the full year 2017. FFO is projected to be $5.72 to $5.92 per share, or $5.82 at the mid-point, which includes $0.15 per share of merger and integration costs. AFFO is projected to be $5.12 to $5.32 per share, or $5.22 at the mid-point.

The primary driver of 2017 performance is expected to be Combined Adjusted Same Store NOI growth, which is projected to be 3% to 3.5%, based on 3.0% to 3.5% revenue growth and 3.0% to 4.0% operating expense growth. Our revenue projections include continued strong occupancy levels, averaging about 96% through 2017, combined with average rental pricing in the 3.0% to 3.5% range for the year. We expect operating expenses to remain under control, with real estate taxes the only area of expected pressure, which are projected to continue growing in the 5% to 6% range for the year.

We expect acquisition volume to range between $300 and $400 million, with disposition volume ranging between $125 and $175 million for the year. We expect to fund between $150 and $250 million of development costs during 2017, projecting to fully complete six of the nine communities currently under construction. Given our expectation of generating $90 to $100 million of internally generated cash flow in 2017, along with the anticipated asset dispositions for the year, we do not currently have plans to issue new equity during 2017.

Our guidance assumes we incur an additional $16 to $20 million of merger and integration costs in 2017, and capture the full $20 million of overhead synergies, on a run-rate basis, by year-end. We also expect to begin capturing additional NOI synergies, primarily in the later part of the year, as the operating practices and platforms become more integrated.

That is all we have in the way of prepared comments.