# CONFERENCE CALL TRANSCRIPT: 2Q2019

**August 1, 2019, 9:00 AM CT**

**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 forward looking statements section in yesterday's earnings 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. A presentation of the most directly comparable GAAP financial measures, as well as reconciliations of the differences between non-GAAP and comparable GAAP measures, can be found in our earnings release and supplemental financial data, which are available on the "For Investors" page of our website at www.maac.com.

I'll now turn the call over to Eric.

**Eric Bolton**

Thanks, Tim, and good morning. Second quarter results were ahead of our expectation. Strong job growth and resulting demand for apartment housing are driving higher trends in rent growth across our Sunbelt markets. We believe our portfolio, which is diversified across this region in terms of both submarkets and price point, is particularly well positioned to capture the benefits of these positive trends. This strong demand, coupled with the benefits from our merger and the retooling of our operating platform is really starting to bear fruit as our combined lease-over-lease pricing in Q2 was a strong 5.0%; higher than what we've seen in several years. We are encouraged with the trends as effective rent growth continues to climb.

As anticipated and in line with our expectations, same store expense growth in Q2 was higher than what we've seen over the past couple of years as we harvested expense synergies from our merger transaction, setting up a more challenging comparison for us this year. However, as has been our custom, we maintain a rigorous focus on driving efficiencies into our operation and, as you will note from yesterday's earnings release, we revised down slightly our full year expectation for expense growth.

Overall, the 3% growth in same store NOI captured in the second quarter is well ahead of our original expectations and we are encouraged with the overall trends. Given the strong year-to-date performance and that we are well into the busy summer leasing season, we are raising our full year expectations for same store revenues, net operating income and overall FFO growth.

On the transaction front, we have not seen much change from the past few quarters with stable cap rates and a high level of buyer appetite. We continue to see good deal flow, but the private equity buyer remains aggressive in their efforts to deploy capital. We remain committed to our investment disciplines and, as noted in our earnings guidance update, we have pulled back on the level of acquisitions we expect to complete this year, while increasing the level of funding we plan to allocate to new development starts. You will note that we also increased our planned dispositions volume. Earlier this month we initiated marketing efforts with plans to sell five properties in the Little Rock, Arkansas market, and we expect to exit this market by year-end.

During the quarter, we completed lease-up at two of our new properties in Denver. Our remaining two properties in initial lease-up located in Charleston and Atlanta remain on track and should stabilize late this year. Our five new development projects currently under construction also remain on track. At a total investment of just over $354 million, we continue to forecast stabilized NOI yields north of 6% from these two pipelines. We also continue work on predevelopment activities at our existing owned land sites in Denver, Houston and Orlando. In addition, we are close to finalizing a new JV development project located in Orlando. We expect to have construction underway at all four of these new projects by year-end.

Before turning the call over to Tom I want to send a big thank you to our team of associates here at our home office, in our regional offices and those associates serving at each of our properties. Our folks have done a tremendous job over the last couple of years working through the challenging process of merging and transforming two long established companies, systems and operating programs. The hard work is starting to show in our results and we look forward to capturing additional opportunity over the coming quarters.

**Tom Grimes**

Thank you, Eric, and good morning everyone. Our operating performance for the second quarter was strong and better than our original expectation. Driven by strong demand and the improved platform we have continued momentum in rent growth, strong average daily occupancy and improving trends.

Same store effective rent growth (ERU) per unit was 3.2% for the quarter. This was the fifth straight quarter of improving ERU growth. As a result, our year-over-year revenue growth rate was the highest it has been since 2016 and revenues increased 130 bps sequentially. The acceleration in revenues was widespread. The year-over-year, revenue growth rate for the second quarter exceeded the growth rate of first quarter in 19 of our 21 largest markets. As signaled by our guidance raise, we expect this acceleration to continue.

This is led by steady momentum in new and renewal blended lease-over-lease pricing. Blended lease-over-lease rents for the quarter were up 5.0%, which is 170bps better than this time last year. The improvement in blended prices from Austin, Atlanta, Charlotte and Dallas were particularly impactful.

Even with the great traction on blended pricing during the quarter, average daily occupancy remained strong at 96.0%.

Operating expenses were in line with our guidance but higher than they have been recently. As we have mentioned on prior calls, we have captured the benefits of the improved expense management platform on the Post portfolio and the comparisons are now more difficult. Year-to-date expense growth is now 2.8%. As a reminder, our annual operating expense growth since 2012 has been just 2.4%, well below the sector average.

The favorable same store trends continued into July. We are on track for another month of strong blended lease-over-lease pricing. July blended lease-over-lease rents were up 5.3%, which is well ahead of the 3.2% posted in July of last year. Average daily occupancy for the month continued at a strong 95.9% which was 20bps higher than July of last year. Our 60-day exposure, which represents all vacant units and move-out notices for a 60-day period, is 7.3%, which is 50bps better than this time last year.

On the redevelopment front, through the second quarter we completed about 3,800 units, which keeps us on track to redevelop around 8,000 units in 2019. This is one of our best uses of capital. Through the second quarter, on average we spent approximately $5,800 per unit and achieved an additional 10% in rent, which generates a year-one, cash-on-cash return in excess of 20%. Our total redevelopment pipeline now stands in the neighborhood of 14,000 to 15,000 units.

Our technology platform continues to expand. Our overhauled operating system and new website have aided our ability to attract, engage and create value for our residents. The results are evident in our blended pricing traction. Our tests on SmartHomes are going well. The technology has been installed with minimum disruption and received well by our customers. We are also exploring a range of AI, Chat, Customer Resource Management and prospect engagement tools. We are excited about the innovations in the apartment space and look forward to continuing to incorporate new technology into our operating platform.

Our teams are pleased to have the work of 2017 and 2018 in the rear view mirror. We are encouraged with the momentum in rent growth and excited to have our transformed platform fully operational.

**Al Campbell**

Thank you, Tom, and good morning everyone. I'll provide some additional commentary on the company's second quarter earnings performance, balance sheet activity, and finally on our updated guidance for the remainder of the year.

FFO per share of $1.57 for the second quarter included $0.04 per share of non-cash income related to the embedded derivative in our preferred shares. Excluding this item, FFO was $1.53 per share for the quarter, which was $0.02 above the midpoint of our guidance.

The outperformance was the result of favorable operating performance, and as Tom mentioned, primarily related to the continued strong lease-over-lease pricing achieved during the quarter and year-to-date. Pricing performance combined with the continued strong occupancy drove the 90bps acceleration in total same store revenues for the quarter, to 3.2% growth.

This revenue performance, combined with the 3.6% growth in operating expenses for the quarter, produced NOI growth of 3.0%, which is the highest in nine quarters and is projected to continue growing over the remainder of the year. Additional information gained during the second quarter confirmed real estate tax pressure in Georgia (primarily Atlanta) and Texas as we continued to work through significant valuation increases over the last couple of years. We now expect real estate tax expense growth to range from 4.25% to 5.25% for the full year. Despite this increase, strong performance in overall same store expenses in the first half of the year allowed us to slightly lower the midpoint of our expense guidance for the full year.

We continued to make progress on our development and lease-up portfolio during the quarter. We funded an additional $26 million toward the completion of our current development pipeline. We now have $148 million remaining to fund on the five projects currently under construction. We expect to fully complete two of these communities this year, and as Eric mentioned, we expect to begin four new projects later this year with a total estimated cost of around $300 million. We continue to expect stabilized yields between 6.0% and 6.5% on our development projects once completed and fully leased.

During the second quarter we were fairly active on the financing front. We paid off the $300 million six-month term loan which was due in June, and completed the renewal of our $1 billion unsecured credit facility, extending the maturity until 2023. We also established a commercial paper program during the quarter to capture lower financing costs on our routine working capital borrowings. Our commercial paper borrowings will be capped at $500 million and are fully backed by our credit facility.

Our balance sheet remains strong. Leverage remains low, with debt to total assets at 32% and total debt to EBITDA below 5x, and we've proactively used the low rate environment over the last few years to further protect our balance sheet. At quarter-end, we had 85% of our debt fixed or hedged against rising interest rates at an average maturity of almost 8 years, which is a historical high for our company. We also had over $670 million of cash and funding capacity under our line of credit and our current forecast is leverage neutral for the year.

Finally, we are revising our FFO and same store guidance for the full year to reflect the strong first half performance, as well as our updated projections for the remainder of the year. We are now projecting FFO per share for the full year to be in a range of $6.20 to $6.36 per share, or $6.28 at the midpoint, which is a $0.05 per share increase over our previous guidance, based on increased operating performance. Given the volatility of interest rates, which is the primary driver of valuation changes related to our preferred shares, we are projecting the favorable preferred valuation to reverse later in the year, bringing the full year impact on earnings to zero.

With the continued strong lease pricing performance over the first half of the year, we are revising our full year guidance for same store revenue to a range 2.75% to 3.25%, or 3.0% at the midpoint which is a 70 bps increase from the midpoint of our previous guidance. As mentioned earlier, though we expect continued pressure from real estate taxes, we project total operating expenses for the full year to now be in a range of 2.5% to 3.5%, or 3.0% at the midpoint for the full year. This performance will produce same store NOI in a range of 2.5% to 3.5%, or 3.0% at the midpoint for the full year, which is 120bps above our initial expectation for the year.

That's all we have in the way of prepared comments, so, Aaron, we will now turn the call back to you for questions.