

Mid-America Apartment Communities, Inc.
Conference Call 4Q09
February 5, 2010, 9:15 am (Central)

Leslie Wolfgang

Good morning. This is Leslie Wolfgang, Director of External Reporting for Mid-America Apartment Communities. With me are Eric Bolton, our CEO, Al Campbell, our CFO, Tom Grimes, Director of Property Management and Drew Taylor, Director of Asset Management.

Before we begin I want to point out that as part of the discussion this morning company management will make forward-looking statements. Please 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 and good morning everyone.

Mid-America reported better than expected results yesterday as operating performance was stronger than we had forecast. The upside was due to better than expected pricing and collections performance, as well as lower real estate taxes.

In a year that presented significant challenges for the apartment business, Mid-America's same store revenues for all of 2009 declined an average of only 1.2% and NOI declined only 1.5%. For the year, FFO per share grew 1.6% and set an all-time high for our company.

As outlined at the beginning of 2009, we expected that Mid-America's portfolio strategy and financing program, coupled with a strong operating platform, would generate results that would hold up better than most during this tough economic cycle. As we look ahead towards another challenging leasing environment in 2010, we believe Mid-America is well positioned to once again deliver solid results. Our same store forecast for 2010 is of course coming off of one the best performances in the sector for 2009 and thus the benchmark comparison for Mid-America will be tougher than the sector average. Nevertheless, with pricing trends in our portfolio showing early signs of stabilizing and occupancy continuing to hold up well, we remain convinced that a long and strong recovery cycle for Mid-America will emerge late this year.

After several quarters of downward pressure on rents we're encouraged by early signs suggesting that we've reached a point where we should be able to hold strong occupancy at current pricing levels. On a year-over-year basis, rents on leases written for new

residents moving in were down 6.3% for all of 2009 as compared to all of 2008. Over the course of 2009, January to December, new resident rents declined at a slower rate, down 3.2%. And over the last three months, new resident rents were down only 1.0%. This flattening trajectory, coupled with the fact that our occupancy has remained very strong and our 90-day exposure, which considers current vacancy plus notices to move-out, is lower than we've seen in quite a while, suggest to us that we should begin to capture greater stability in new lease pricing this year at most of our properties.

Looking at pricing on leases written for renewal transactions, as you would expect, rent trends were not under quite as much pressure as new resident pricing. Renewal lease pricing declined by 2.8% over the course of 2009 as compared to 3.2% for new resident pricing. However, rent trends for renewing residents will generally lag the trend for new resident rents and thus we expect to see some continued pressure on renewal pricing over the next few months. Given the expectation that the decline in new resident pricing is bottoming out and that overall leasing conditions are set to improve in the second half of this year, we expect that pricing for renewal leases will likewise begin to bottom out mid-year and start to recover late this year and into 2011.

In summary, with occupancy levels high, with our 90-day exposure very much under control, with employment trends showing signs of stabilizing and with new supply deliveries in most markets continuing to decline, we believe leasing fundamentals will support the start of pricing recovery in the second half of 2010. It's worth noting that according to the Bureau of Labor Statistics, the total job loss incurred across Mid-America's markets in 2009 was roughly 731,000 jobs. The projection for 2010 is that 126,000 new jobs will be added across our markets. The majority of the revenue pressure we expect to see in 2010 is a result of the pricing actions taken during 2009. As we work through the heavy leasing season of the summer, we expect to re-price the bulk of the portfolio at generally flat to slightly higher rents which will then set up for stronger recovery in 2011.

Taking a look at expectations from our various market concentrations, based on employment outlook and new supply deliveries, we expect continued weakness this year in Atlanta, Jacksonville and Raleigh as a limited amount of new supply from projects started prior to the credit market pullback comes on line. Markets that have had some weakness over the last few quarters that we believe are beginning to stabilize and are likely to be somewhat flat in 2010 are Houston, Austin, Charleston, Greenville and Tampa. Markets where we expect to capture more stable performance this year as compared to 2009 are Memphis, Dallas and Nashville.

As we've discussed in the past, we believe that our portfolio strategy of diversifying capital across the high-growth Sunbelt region, in both large and select secondary markets, is a key attribute to our goal of providing shareholders strong full cycle performance. As detailed in our earnings release, our secondary market segment continues to deliver a more stable level of performance during this part of the cycle. But, as we begin to look towards recovery, with nearly 60% of our asset base in the large tier market segment, that will deliver some of the most robust job growth numbers in the country between now and

2013, and with all of these markets expected to see drops in new supply delivery that are well below long established historical delivery rates, we believe the company is in a terrific position to deliver strong results over the next 2 to 3 years.

We were pleased with the three acquisitions completed during the fourth quarter which included our initial investment into the San Antonio market. We were also pleased to get another investment into our new joint venture. We believe all three acquisitions will be good long-term investments that will meet or exceed our performance goals, and in each case we achieved very good pricing as compared to replacement values.

A lot has been said concerning the challenges buyers face given the limited number of quality properties brought to market thus far with a significant amount of new investment capital chasing deals. Despite the competitive transaction environment, we believe that we will be successful in capturing a meaningful level of attractive new growth for our shareholders over the next couple of years. We have a long-record of strong performance for sellers and brokers in this region and we are generally provided an opportunity to look at most deals. Our strong public REIT balance sheet provides a competitive advantage in a number of markets where we are competing with private and less well capitalized buyers. In addition to our normal channels for sourcing deals, we are also working with regional and national lenders to identify situations where we can provide a solution for some of their distressed loans that match up with our investment objectives. Our acquisitions focus in 2010 will continue to center on the Sunbelt region with a commitment to both large and select secondary markets and our goal of delivering strong full-cycle performance for shareholders.

That's all I have in the way of prepared comments so I'll turn the call over to Al.

Al Campbell

Our fourth quarter FFO per share of 92 cents was 5 cents ahead of the mid-point of our guidance. As Eric mentioned, this outperformance was driven by solid operating results for the quarter, with both revenues and expenses contributing to the result. Same store NOI for the fourth quarter was forecasted to decline 5.5% to 6.0%, while actual performance was down only 2.6%. Occupancy remained strong during the quarter, while lease pricing, collections, and fee income were all a bit better than projected, producing an additional 3 cent per share in revenues. Property operating expenses remained under control during the quarter, with real estate tax expenses continuing to benefit from successful prior year appeals and favorable assessments, producing the majority of a 2 cent per share favorability to forecast.

Our balance sheet is in great shape and we continue to have one of the strongest financial positions of the apartment sector. Our fixed charge coverage remains strong at 2.68 and our leverage, at 50% debt to gross assets, is well below the sector average of 56%. As Eric mentioned, we were busy on the acquisition front during the fourth quarter, which lead us to issue a small amount of additional equity (\$8.2 million) under our continuous equity program to maintain the strength of our balance sheet. As we've discussed in the

past, our usage of this program will remain controlled and closely related to acquisition activity.

Our only debt maturity during 2010 is our \$50 million bank credit facility maturing in May. Negotiations for this have gone well and we expect to close the renewal of this facility in the first quarter of 2010. We also have \$180 million maturing mid-to-late 2011, and we have begun preliminary discussions on the refinancing. Our current plans are to replace these maturities with fixed rate agency debt, which easily remains the most available and best option in today's environment.

During 2010, we also have \$148 million of our debt re-pricing as 4 interest rate swaps mature at an average annual rate of 5.7%. As outlined in our release, these are interest rate maturities only and not contract or mortgage maturities. We currently plan to replace these maturing swaps with a combination of new interest rate swaps and caps with an average cost of approximately 4.5% to 5.0% during the first year. These transactions along with the current yield curve, support our expectation of continued low overall interest costs for 2010, projected to average around 4.2%.

At the year-end, just over 81% of our debt was fixed, swapped or capped, remaining well protected against a significant rise in interest rates. We have historically maintained around 20% of our debt floating rate (or un-hedged), but we expect that percentage to move a bit lower during 2010 as we move to further protect our balance sheet from rising interest rates.

Our initial earnings guidance for 2010, which is detailed in the release, is built on continued strong occupancy and a stable lease pricing environment through much of the year. Total revenues for 2010 are projected to continue declining for the first couple of quarters as new leases are re-priced to current rent levels. Expenses are projected to remain under control for the year, with real estate tax expense (nearly a quarter of operating expenses) projected to increase 4% in 2010 as more rate increases are expected as local governments begin to deal with revenue shortfalls.

As mentioned in our release, the revenues and expenses related to our bulk cable program continued to grow in 2009 and will become more sizable in 2010. Contracts under our former revenue program were essentially fee sharing arrangements, whereas, under the current program we purchase cable and pass it on to residents at a mark-up. This new program requires different accounting treatment resulting in revenues and expenses reported gross on separate lines on the P&L. Since this new program is ramping up and the financial statement presentation is a change from our prior program, we plan to report same store operating performance both before and after the new presentation throughout 2010 in order to provide more clarity. As outlined in the release, we expect NOI to decline 6% in 2010 at the mid-point of our range. We believe the cumulative two year decline of 7.5%, when combined with 2009 results, will compare favorably to the apartment REIT sector.

We have several property revenue and expense saving initiatives which contribute to the 2010 same store performance, many of which began during 2009. These include the bulk cable program, trash and pest fee increases, resident screening and billing improvements, and decreased print advertising, which in the aggregate, are expected to add \$1.8 million to same store results. We also expect an additional contribution of 8 to 9 cents per share from our recent development, lease-up, and acquisition pipeline, as it continues to mature in 2010.

We expect capital expenditures for 2010 on existing properties to be near historical levels, around \$770/unit in total. We also expect an additional \$9 million to be invested in the redevelopment program, generating rent increases around 8%. We have projected \$150 million in acquisitions during 2010 for our own balance sheet as well as for Fund II, which are spread fairly evenly throughout the year. We plan to finance our investment program with a combination of debt and equity financing during the year, as necessary, ending the year with debt to gross assets near the current level of 50%.