



CONFERENCE CALL TRANSCRIPT: 4Q2012

February 7, 2013 9:00 AM CDT

Leslie Wolfgang

Good morning. This is Leslie Wolfgang, Director of Investor Relations 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.

I'll now turn the call over to Eric.

Eric Bolton

As outlined in yesterday's earnings release, MAA wrapped up 2012 in a strong fashion generating same store NOI growth of 8.5% for the fourth quarter. For the full year, same store NOI increased 6.6%. In 2013, we expect another year of solid same store results with NOI increasing in a range of 4% to 6%.

We don't believe the current pipeline of new apartment construction in our markets and submarkets is sufficient to materially weaken leasing fundamentals during 2013. The outlook for continued recovery in job growth across our portfolio along with positive demographic trends are expected to generate continued growth in demand and net positive absorption. Across our large tier market segment of the portfolio, the ratio of new jobs to new unit deliveries is expected to remain very healthy in 2013 at almost 9 to 1, while the secondary market segment of the portfolio will be slightly stronger at close to 12 to 1.

During the fourth quarter resident turnover declined 4.5% as compared to the prior year. Move-outs to buy a home declined 1.8%. Move-outs associated with renting a home moved up only slightly from 5% to 6% during Q4, and remain an insignificant factor in driving resident turnover. The number of new resident move-ins in the fourth quarter increased 2.5% when compared to the prior year.

Effective rent across the same store portfolio grew 4.8% in the fourth quarter. On a year over year basis, new lease rents grew 3.2% in the fourth quarter. Renewal pricing for existing residents on a lease over lease basis increased an average of 5.5%.

We continue to make progress on positioning the balance sheet for broader access to the unsecured debt market. We ended the year with over 52% of the portfolio unencumbered and expect to see the unencumbered asset pool grow in 2013. As reported a couple of weeks ago, S&P issued an initial investment grade rating on MAA at BBB minus, with a positive outlook.

Leasing continues to go well on our new development projects in Nashville and Little Rock with rents running ahead of proforma. Initial occupancy started last month at our new lease up in Charlotte and while still early in the process we are on track to meet lease-up expectations at this phase II project. Construction is underway at our project in Charleston and we expect to begin pre-leasing late this quarter. We're excited about our new project in Jacksonville that broke ground in the fourth quarter. Our 220 Riverside Project is located in a highly desirable urban location across the street from the headquarters of three of the city's largest employers, is adjacent to Unity Park, Jacksonville's newest urban park, and is within easy walking distance of the city's Riverside Arts Market.

We expect the acquisition environment to remain competitive in 2013 as capital continues to chase yield and investment opportunity within apartment real estate. We've modeled \$250 million to \$300 million of new wholly-owned acquisitions in 2013 which is down slightly from the \$345 million in acquisitions completed in 2012. In our base case modeling for 2013 we've not assumed in additional joint venture acquisitions as we expect the environment for value-add or repositioning plays to remain very pricey. Our strategy and approach for deploying capital remains consistent with a focus on both large and secondary markets across our Sunbelt footprint.

As noted in our earnings release, we expect to increase our disposition activity again this year with dispositions ranging from \$150 million to \$160 million. We remain committed to a steady program of recycling capital from lower after-capex margin investments into higher margin properties.

As we head into 2013 our performance objective for shareholders remains centered on strengthening MAA's full cycle performance platform. As increasing levels of new construction come on line in 2014 and 2015, we expect our disciplined approach to investing, across both large and secondary markets, combined with a significantly strengthened balance sheet, will position the company to both capture steady external growth and generate superior, stable, long-term same store results.

I'll now turn the call over to Al for more detail on the fourth quarter and our 2013 guidance. Al.

Al Campbell

Thank you Eric, and good morning everyone. I'll provide a few comments on earnings performance for the fourth quarter and MAA's balance sheet position, and then I'll outline the key assumptions included in 2013 guidance.

FFO for the fourth quarter was \$53.4 million, or \$1.21 per diluted share, which represents 13% growth over the prior year, and is \$0.06 per share above the mid-point of our previous guidance.

About 2/3rds (or \$0.04 per share) of the favorability from expectations was produced by property performance, with three cents related to the same store portfolio and another one cent related to development and recent acquisition properties. Revenue performance for the quarter was essentially in-line with expectations, while utilities, repair and maintenance, and real estate tax expenses combined to produce the majority of this favorability for the quarter, with roughly equal contributions. An additional two cents per share was related to interest expense and acquisition costs for the quarter, primarily due to no acquisitions during the fourth quarter. FFO for the full year was \$196.3 million, or \$4.57 per share, which is also a record for the company and represents a 15% growth over the prior year.

During the fourth quarter, we sold one additional community for \$13.6 million, completing our recycling plans for the year and bringing year-to-date gross proceeds from dispositions to \$113 million. As Eric mentioned, we continue to make good progress on our development pipeline. During the fourth quarter we funded an additional \$20.5 million toward completion of the pipeline, leaving just over \$57 million to complete all current projects underway. You will notice in the supplement to our release that our disclosure of total estimated costs for development projects has been revised. The total estimated cost presented now represents all costs expected to be capitalized for the project, instead of primarily only construction related costs included in the prior disclosure. The expected returns remain in-tact and well above our investment hurdle rate.

Our balance sheet ended the quarter in great position and we continued progress toward achieving full (efficient) access to the public bond market. During the quarter we issued around 343 thousand common shares through the ATM program at an average price of \$65.67 per share, for total net proceeds of \$22.2 million, which was primarily used to fund development activity. As Eric mentioned, in January we received a first time issuers rating from Standard & Poor's, which reflects the strength of our balance sheet and completes our goal of receiving investment grade ratings from all three major rating agencies. We plan to put these ratings to good use in 2013, which I will discuss more in just a moment.

Now I'll turn to our earnings guidance for 2013. We have outlined the major assumptions included in expectations in the supplemental information provided with the release. Overall, we expect diluted FFO per share for the full year to be \$4.83, the mid-point of the projected range of \$4.73 to \$4.93. FFO per share is expected to be between \$1.13 and \$1.25 for the first quarter, \$1.18 and \$1.30 for the second quarter, \$1.12 and \$1.24 for the third quarter, and \$1.16 and 1.28 for the fourth quarter. Our quarterly guidance range reflects the potential impact of timing on the significant acquisition, disposition, and financing activity planned during the year.

The primary driver of 2013 growth is expected to be continued strong performance from our same store portfolio. Our estimate includes full year same store NOI growth of 4% to 6%, based on a 4% to 5% growth in revenues and a 3.5% to 4.5% growth in operating expenses. We expect solid pricing performance to continue in 2013, with some moderation as we move into the back half of the year. Our expectation is for occupancy levels to remain essentially constant next year, with blended pricing growth in the 4% to 4.5% range. We expect real estate taxes, which are about ¼ of operating expenses and projected to grow 5.5% to 6.5% across the same store portfolio in 2013, to produce the largest increase in expenses.

Our projections also include acquisitions of wholly-owned communities of \$250 million to \$300 million, including the planned acquisition of two communities from Fund I (our joint venture with Fannie Mae). We also plan to sell \$150 million to \$160 million of wholly-owned communities. Our cap rate expectations for acquisitions are in the 5.5% to 6% range, with disposition cap rates expected to be about 100 basis points higher on average. We expect to fund an additional \$40 million to \$50 million on development pipeline in 2013, with no new developments currently planned, and we also expect to spend an additional \$18.5 million of redevelopment capital on our interior renovation program and recent acquisition communities combined.

Capital spending on existing properties is projected to be approximately \$41 million, or \$840 per unit, with \$29 million going toward recurring capital expenditures and an additional \$12 million toward revenue enhancing projects.

Other key assumptions include plans to refinance about \$150 million of existing debt in the second half of 2013. We currently plan to access the public bond market in 2013, most likely in the back half, as we continue to fund our growth and broaden our capital sources.

We expect our leverage (defined as debt-gross-assets) to range between 43% and 45% during 2013, while we expect our unencumbered asset portfolio to be between 55% and 60% of gross-assets at year-end. Interest costs are expected

to be 3.8% to 4.0% for the full year, depending on the timing of financing transactions.

We anticipate combined property management and G&A expenses to be between \$37 million and \$38 million for the year, declining by 20 basis points as a percent of total revenue.

That's all we have in the way of prepared comments.