



CONFERENCE CALL TRANSCRIPT: 4Q2014

February 5, 2015 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. 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.

When we reach the question & answer portion of the call, I would ask for everyone to please limit their questions to no more than two, in order to give everyone ample opportunity to participate. Should you have additional questions, please re-enter the queue or you are certainly welcome to follow up with us after we conclude the call. Thank you.

I'll now turn the call over to Eric.

Eric Bolton

Thanks Tim.

Fourth quarter performance was strong as favorable leasing conditions supported solid rent growth and continued strong occupancy, which along with good expense control, generated net operating income that was ahead of our expectations. As outlined in our initial guidance for calendar year 2014, momentum in operating performance increased during the year. Continued healthy leasing conditions, coupled with the growing benefits harvested out of our merger, supported the strong results that we expected over the back half of the year. Our merger integration activities are complete and our focus is now fully

attuned to further refining and enhancing our platform. The company is in a solid position and we look forward to 2015.

As we wrap up 2014 with record high earnings I want to say to our entire team at MAA thank you for your hard work and great efforts over the past 18 months to make our merger successful. Your efforts have our platform in a strong position and we have a great opportunity ahead of us to generate increasing value for our residents and shareholders.

Solid revenue performance during the fourth quarter was driven by continued strong occupancy as average daily occupancy for the same store portfolio was 95.5% or 40 basis points ahead of the prior year. Resident turnover remains low with the number of move-outs during the quarter as compared to prior year down slightly. Move-outs to buy a house were down 4.5% during the quarter.

Taking a brief look at specific market performance for the quarter, Atlanta was our strongest market generating 7.6% revenue growth, with Houston, Dallas, Phoenix and Austin also generating good results. Within our secondary market segment of the portfolio, Greenville, SC generated strong growth in revenues at 7.3% over the prior year with Savannah and Charleston also continuing to post solid performance.

Looking at 2015, continued strength in employment trends across the Sunbelt suggest that despite projected higher levels of new supply coming on line across a number of markets, rent growth prospects should continue to be above long-term trends. As outlined in our 2015 earnings guidance, we are forecasting revenue growth in the 3% to 4% range. We expect to be able to hold occupancy and capture the bulk of this performance from growing rents. Looking at the ratio of forecasted job growth to new apartment completions coming on line in 2015, we expect to see our strongest performances out of Atlanta, Ft. Worth and Phoenix. With steady improvement in new job growth forecasts across a number of our secondary markets and continued modest levels of new supply, the ratio of job growth to new supply suggests that we should also see improving results from this segment of the portfolio in 2015. We expect to see good performances this year from Charleston, Fredericksburg, Greenville and Savannah.

As noted earlier, we have completed our most significant merger related activities with all properties now on the same property management, revenue management, payables, accounting and management reporting platforms. A combination of adopting best on-site operating procedures and full integration of MAA's asset management programs, coupled with benefits from our larger scale and synergy, resulted in an 80 basis point improvement in operating margin from the legacy Colonial portfolio over the course of 2014. In addition, we captured a 30 basis point improvement in the operating margin in the legacy MAA portfolio during the year. At the time of our merger we expected to generate combined NOI operating synergies of \$0.05 to \$0.11 per share and now expect to fully

capture the top end of this range. In addition, with the organization now fully integrated, we expect to fully capture the anticipated G&A and overhead expense synergies of \$25 million, or \$0.32 per share, which is fully reflected in our guidance assumptions for 2015.

Our redevelopment program continues to generate strong rent increases and long-term value. During 2014 we completed renovations of just over 4,500 units, which was a meaningful increase from the almost 2,600 units in calendar year 2013. We expect another big year of redevelopment in 2015 and are targeting in excess of 4,000 units with a much heavier emphasis on the legacy Colonial properties. In total, we believe that we have 15,000 to 20,000 units of redevelopment opportunity within our same store portfolio and expect this program to be a multi-year contribution to earnings performance and value growth.

As outlined in our guidance for 2015, we expect another active year of property dispositions and are targeting to sell \$350 to \$425 million of properties, an increase from the \$250 million of sales completed in 2014. Our capital recycling activity this year as compared to prior year will have a much heavier emphasis on multifamily assets and specifically legacy MAA properties located primarily in tertiary and select secondary markets. We expect to complete this activity in the first half of the year as we move to take advantage of current market conditions.

Our transaction group is also busy with an increasing level of acquisition opportunities coming to market. As noted in the earnings release, we closed on three new acquisitions in the fourth quarter which were located in Atlanta, San Antonio and Houston, and we closed another acquisition in Kansas City in January. As one of the larger platforms focused exclusively on the southeast and southwest, a strong balance sheet with ample capacity, experience to efficiently execute for sellers and developers, and a focus on maintaining an active capital recycling program, we continue to be presented with a growing number of attractive new investments. We're estimating four to five hundred million of acquisitions in 2015, slightly ahead of the \$400 million closed in 2014. We expect the opportunities to increase over the course of the year from both newly stabilized properties, as well as properties that are still in their initial lease-up. We also continue to look at opportunities to pre-purchase to-be-built properties and phase II expansions of existing properties, but expect that at this point in the cycle this will be a more selective component of our capital deployment activity as we begin this year with \$73 million of new development underway versus just over \$200 million at this time last year.

So overall we expect a busy 2015 with continued stable leasing conditions, an active capital recycling effort, and a focus on further enhancing operating margins as we fine tune and improve on a number of the merger related projects that were completed during 2014. We continue to feel good about our strategy

and are excited about activities underway to further strengthen the platform. We look forward to another good year in 2015.

That's all I have in the way of comments so I'll 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 fourth quarter earnings performance, balance sheet activity, and finally on our initial earnings guidance for 2015.

We had strong earnings performance in the fourth quarter, which produced record levels of FFO per share for both the quarter and full year 2014. FFO for the quarter was \$107.4 million, or \$1.35 per share. Core FFO, which excludes certain unusual or non-recurring items was \$104.7 million, or \$1.32 per share, which was \$0.06 per share above the mid-point of our previous guidance. Solid operating performance during the quarter from both our same store and non-same store portfolios produced about \$0.03 per share of the favorability, with another \$0.03 coming from favorable G&A and interest costs during the quarter. The majority of G&A savings during the quarter came from reduced insurance costs, as lower current claims and revised projections for health insurance, workers compensation, and general liability insurance claims impacted both the current costs and year-end accruals.

Since we've now owned the Colonial portfolio for 15 months, we transferred the Colonial communities to our actual same store portfolio during the fourth quarter. However, full year comparisons for 2014 continue to be presented on a "proforma combined basis" in our release, as we did not own the Colonial portfolio for the first three quarters of 2013.

For the fourth quarter, the same store portfolio produced 5.6% NOI growth over the prior year, based on a 4.2% growth in revenues and a 2.1% growth in operating expenses. As Eric mentioned, solid pricing performance and strong occupancy continued through the fourth quarter, producing 3.6% growth in effective rent, with an additional 40 bps of growth coming from higher average occupancy during the fourth quarter.

On a proforma combined basis, same store NOI growth for the full year was 4.2%, based on 3.4% growth in revenues and 2.1% growth in operating expenses.

The majority of the increase in operating expenses for both the fourth quarter and full-year was related to real estate taxes, which increased 5.8% for the full year 2014.

During the fourth quarter we invested a total of \$191.8 million in three new communities acquired, located in Atlanta, San Antonio, and Houston. We also

funded an additional \$11.7 million of construction costs for development communities, with an estimated \$12.3 million remaining funding to complete the two communities under construction at year-end.

During the fourth quarter we sold Colonial Promenade Huntsville, a 23,000 square foot retail center, as well as Town Park Moreya, a 25 acre plot of undeveloped land, both acquired in the merger. Combined proceeds of \$12.3 million were received from these sales, and we recorded net gains of \$200 thousand on asset sales during the fourth quarter.

The only significant financing transactions during the fourth quarter were the assumption of a \$40 million loan related to the Atlanta acquisition, and an amendment to a \$150 million Term Loan, which effectively added an additional three years to the loan and reduced the borrowing spread by 25bps, taking full advantage of our strong credit rating.

At the end of the fourth quarter our balance sheet remains in great shape. Total Company leverage, based on market cap, was 37.3%, our fixed coverage ratio was about 4.0 times, and total debt to Recurring EBITDA was 6.4 times. Over 96% of our debt was fixed or hedged against rising interest rates, and 67% of our assets were unencumbered at year-end. Also, we had over \$460 million of total cash and credit available under our unsecured line of credit at year-end.

Finally, we did provide initial earnings guidance for 2015 with the release. Core FFO, is projected to be \$5.09 to \$5.33 per share, or \$5.21 at the mid-point, based on average shares and units outstanding of about 79.5 million shares. Core FFO per share is expected to be between \$1.23 and \$1.35 per share for the first three quarters of 2015, and \$1.28 to \$1.40 per share for the fourth quarter.

The primary driver of 2015 performance is expected to be same store NOI growth, which is projected to be 3% to 4%, based on a 3% to 4% growth in both revenues and operating expenses. We expect operating expenses to continue to have some pressure from real estate tax expense, which is projected to grow 4.5% to 5.5% for 2015.

We plan a significant amount of transaction activity in 2015, as we recycle older assets and continue to dispose of commercial and land assets acquired from Colonial. We plan to sell \$300 to \$350 million of multifamily communities in 2015, and an additional \$50 to \$75 million of commercial and land assets. We expect to reinvest these proceeds and excess cash generated from operations into \$400 to \$500 million of new multifamily assets. We also expect to begin a limited number of development projects during the year, consisting of Phase II expansion opportunities at two of our existing properties, and we also anticipate that we will identify one additional opportunity to pre-purchase a new development project during the year.

Given the interest rate environment and high demand for apartment assets in the current market, we believe the majority of the property sales will occur early in the year, and we are projecting ~\$250 million sales in the first quarter and the remainder (~\$150 million) in the second quarter. We're projecting about \$90 million of new acquisitions in the first quarter, representing a deal already closed in January and one additional deal currently well into the contract process. Other than these, we expect the remainder of acquisitions to occur over the back half of the year, as transaction volume continues to grow and opportunities expand, which is reflected in our 2015 guidance.

We expect dilution during 2015 both from the initial loss of NOI yield, or spread, on selling older assets and buying new, as well as from the timing of the reinvestment. As outlined in our earnings release, our current projections for 2015 include dilution related to these recycling plans as well the new development projects mentioned earlier. Keep in mind that on an "after capex" (or cash flow) basis, the dilution from this recycling is much smaller, as the initial spread between the older (higher capital needs) assets we are selling is much closer to the yield on the newer assets being purchased (only 25 to 50bps spread).

Other key assumptions for 2015 include plans to refinance about \$400 million of debt maturities in the fourth quarter, and combined G&A and Property Management expenses for 2015 of \$56.5 to \$58.5 million, reflecting the full synergy capture forecasted from the merger.

Our current plans do not include the need for any new equity during 2015, and we expect to end the year with leverage (defined as net-debt-to-gross-assets) of 40% to 42% (or 1% to 2% below our current leverage level), which is a very strong position given our lower risk (limited development) strategy.

That's all we have in the way of prepared comments and Steve we'll now turn the call back to you for Q&A.