



CONFERENCE CALL TRANSCRIPT: 3Q2011

November 4, 2011 9:15 AM CDT

Leslie Wolfgang

Good morning. This is Leslie Wolfgang, Director of External Reporting for MAA. 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. We were pleased with the quarter's operating results as pricing trends and revenue performance continue to improve. Year over year same store revenue growth for the third quarter was 5.5%, which was improved from 3.8% in the second quarter and represents the highest revenue growth posted over the past 20 quarters. We continue to capture low resident turnover, good occupancy and as a result, a continuing ability to put through strong rent increases. As compared to expiring leases, rents were up 5% in the third quarter. Importantly, with current lease renewals going out at increases averaging 8%, we expect to see continued positive momentum from pricing as we head into 2012.

On the expense front, as expected, real estate taxes pressured same store operating costs in the third quarter largely as a result of a credit booked in the third quarter of last year. For the year, we continue to forecast that real estate taxes will increase around 3.5%. After capturing two straight years of 4% decline in real estate taxes, and clear evidence that apartment real estate values are quickly recovering, we fully expected to see this level of growth in taxes this year.

Leasing traffic in the third quarter was essentially flat with the high traffic patterns we saw at this same time last year. We expect that normal seasonal leasing traffic patterns will hold and we'll see some slow down during this upcoming holiday leasing period, but certainly in line with our expectations to cover the lower volume of turnover that also usually takes place during the winter months.

In our earnings release we included an announcement regarding a new \$250 million unsecured revolving credit facility that was closed just earlier this week. Al will give you the details on this new facility in his comments, but as we have been discussing since early this year, we are focused on continuing to position the balance sheet to support continued steady growth and this new unsecured credit facility is another important step towards positioning the company to fully access the unsecured debt markets.

Our transaction pipeline remains very robust and as outlined in our release, we have once again raised our expectations for new acquisitions to a range of \$350 million to \$400 million for this calendar year. We continue to see a lot of properties being brought to market as both institutional owners and developers look to recycle capital and position their balance sheets for this strong up cycle in apartment real estate over the next few years. MAA's extensive network and long-term relationships in the region continue to drive a number of opportunities our way. Our ability to provide sellers execution capabilities that are superior to what many of the buyers in a number of our markets are able to provide will, I expect, continue to yield an active external growth program next year.

As we begin to consider the leasing environment for 2012 we continue to feel that pricing and internal growth will remain strong. The two biggest variables that have impacted our same store performance over the last six or so quarters has been the very low turnover resulting from the sharp fall-off in single-family home buying, and the lack of new construction of multi-family housing.

We continue to believe that any meaningful trend back towards our residents buying single-family homes will depend on both a significant recovery in the employment markets and some moderation in the current hurdles associated with securing mortgage financing. Neither of which we see as likely in 2012. And, of course, any meaningful recovery in the employment markets would also have a positive impact on our leasing fundamentals as new household formation will likely pick up as well, driving higher levels of demand for housing in general. So overall it's hard to see any significant shift in this dynamic for our business for the next few quarters.

On the question of new apartment development, we continue to believe that the overall volume of permitting activity is reasonable relative to growing demand and as a result we expect to see continued solid positive absorption across our portfolio in 2012 and into 2013. As expected, permitting activity is picking up more quickly in several of the larger markets such as Dallas, Atlanta and Houston, but it's important to note that a significant component of this activity is focused on infill and inner city locations where we tend not to compete. Further, our secondary markets continue to see very little in the way of new permitting activity and as a result we expect that this segment of the portfolio will perform very well throughout this particular up cycle.

In summary, we believe that MAA is very well positioned to continue to capture strong results in this up cycle for apartment real estate as we head into 2012.

That's all I have so I'll turn the call over to Al.

Al Campbell

Thank you Eric, and good morning everyone. I'll provide a few comments on our earnings performance for the third quarter, as well as a few highlights regarding significant investing and financing activities. As reported in the release, FFO for the third quarter was \$39.2 million or \$1.00 per share, meeting the mid-point of our guidance.

The earnings performance was driven by solid growth from our same store portfolio, which produced 5.7% NOI growth for the third quarter. Our revenues grew 5.5%, primarily due to a 4.9% increase in average effective rent and continued strong occupancy, which ended at 96.2% for the same store group. Resident turnover remained historically low, at 54.8% on a trailing twelve month basis.

Operating expenses grew 5.1% during the third quarter, with a large portion of the growth over last year coming from real estate tax expense, which was expected. Timing of prior year accrual adjustments (largely credits recorded in the third quarter last year) produced an unfavorable comparison for the third quarter this year. Real estate tax expense for the quarter increased 8%, but as Eric mentioned, it's projected to increase about 3.5% for the full year, near original guidance for 2011.

Overall, performance from our same store group and our recent acquisitions produced earnings results \$0.02 ahead of our forecast for the quarter. This favorable operating performance was primarily offset by additional acquisition and health insurance expenses during the quarter, bringing earnings results to the mid-point of previous guidance.

The solid acquisition pace continued through the third quarter, as we purchased two new properties for a total investment of \$78 million, which was about \$50 million more than projected for the quarter. Also, in October we purchased an additional property for just over \$33 million. All of these acquisitions were stabilized and represent an average cap rate of about 6% on the first years projected cash flows. Since we do include acquisitions costs in our calculation of FFO, per the NAREIT definition, the additional volume in the third quarter added about a penny per share in acquisition expenses, as mentioned. Also reflecting the pace, we increased our full year guidance for wholly-owned acquisitions to a range of \$350 million to \$400 million, an increase of \$125 million over the previous mid-point. Though we expect to incur an additional \$0.02 per share in acquisition expenses related to this projected volume increase, we also expect

additional contribution from these and recent acquisitions, effectively offsetting the earnings impact for the fourth quarter.

Also during the third quarter, we sold a 28 year old property, located in Dallas, for total proceeds of about \$11 million. Our disposition plans continue to include three other communities, two in Houston and one in Memphis, estimated to produce combined proceeds of around \$40 million. These transactions are expected to occur late in the fourth quarter or early in the first quarter of next year.

Progress continues on the three communities currently under development, which we still expect to cost around \$110 million on completion. We funded \$11 million during the third quarter and expect to fund an additional \$20 million to \$25 million during the fourth quarter. We also expect initial unit deliveries and occupancy at one of the communities, Cool Springs located in Nashville, during the fourth quarter.

Turning to the balance sheet, we continue to make solid progress toward our long term financing plans, completing several important transactions during the third quarter. In July we closed on the \$135 million private placement of unsecured notes, which were marketed and priced back in June. The proceeds were then used to repay an \$80 million tranche of our Fannie Mae credit facility, which was set to mature in December, and to fund the new acquisitions. The release of these secured mortgages combined with the new acquisitions increased our unencumbered assets to around 25% of gross book value at the end of the quarter.

As you saw in the release, earlier this week we closed on a new \$250 million unsecured revolving credit facility. The new facility includes an expansion feature to \$400 million and has a four year term, with an additional one year extension option. The facility will initially price based on a leverage grid, but reverts to an investment grade grid once the company achieves an additional rating from Moody's or S&P, to accompany the current BBB rating from Fitch. We're very pleased to be expanding our banking relationships and to be producing additional capacity and flexibility for growth. We remain very focused on further diversifying our capital structure for the future.

In order to fund the equity portion of our acquisition and development activity, we raised \$44.2 million in net proceeds during the quarter by issuing about 657 thousand new common shares through our ATM program. The new shares were issued at an average price of \$67.35 per share, net of issuance costs. We plan to continue using our ATM program and lines of credit to "match" fund investment activity for the remainder of the year.

Our balance sheet remains in great shape, with leverage (defined as debt-to-gross assets) of 47% at the end of the quarter and EBITDA for the quarter

covering fixed charges 3.5 times, compared to the sector average closer to 2.5 times. At quarter end, about 90% of our debt was fixed or hedged against rising interest rates, with staggered maturities averaging 5.3 years. We expect to end the year with our leverage in the 46% to 48% range.

And finally, looking at our earnings guidance for 2011, we are narrowing our FFO range for the year, while maintaining the mid-point. We continue to expect same store NOI growth of 4% to 6%, based on revenue growth of 4% to 5% and expense growth of 3% to 4% (presented with bulk cable netted in revenues). Excluding the non-cash charges recorded in the second quarter (\$0.05 per share), our guidance is for FFO of \$3.97 to \$4.07 per share for the full year, which remains \$4.02 per share at the mid-point.

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