CONFERENCE CALL TRANSCRIPT: 1Q2020
May 7th, 2020 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, Rob DelPriore, our General Counsel, Tom Grimes, our COO, and Brad Hill, EVP and Head of Transactions.

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 thanks to all of you on the call this morning for joining us. I know it is a busy day of earnings reports so we will keep our comments brief and get to your questions.

I would like to start by offering my appreciation and thanks to the hard working associates at MAA. I especially want to thank our associates serving at our properties and working directly with our residents. Your dedication and commitment to supporting and serving our residents has been on full display over the past few weeks and has never been more important than it is today. I am proud of the work you are doing and the service that you are providing.

As noted in our earnings release, first quarter results were better than expected with solid rent growth and strong same store performance.

Our comments this morning, however, will focus on April performance and early May trends. We were encouraged by the solid performance in rent collections for April, as well as the early trends in May. We have taken a proactive approach to directly assist and support those residents who are financially impacted by the shutdown of the economy, while also working to ensure that all other residents and various aspects of our operations are performing and functioning as expected.

Given the severe pull back in the economy and the associated job losses, leasing conditions deteriorated beginning in late March. This is particularly evident in our leasing trends as it applies to new move-in residents. On the other hand, we are seeing positive trends associated with our existing residents electing to stay put and resident turnover continues to decline. Overall, we would expect these leasing conditions to persist over the next two or three months.

As you know the reopening of local economies and businesses across our Sunbelt markets is now underway. Given the range of protocols being used by various states and cities to reopen their economies, it will be a choppy process. However, with unemployment claims across the majority of our states currently running below national averages, coupled with the active efforts now underway to reopen across the Sunbelt, we are hopeful that leasing conditions will start to improve later this year.

As efforts to reopen Sunbelt economies are just now getting underway, it is difficult at the moment to gauge the pace at which employment conditions will improve. We hope to gain better visibility on the important underlying economic and employment market conditions during the second quarter and be in a more informed position as to the outlook for the remainder of the year when we report second quarter results.

In the meantime, we are confident that our strategy focused on the appealing Sunbelt markets, supported by our strong operating platform and our strong balance sheet, executed by a cycle-tested and proven team of associates, will enable MAA to continue to successfully navigate this down cycle.

That is all I have in the way of prepared comments and will now turn the call over to Tom.

Tom Grimes

Thank you Eric and good morning everyone. I'll offer a short recap on the first quarter and then move to the trends we have seen in April and May.

The first quarter of 2020 exceeded our expectations and the results for the quarter put us in a strong position entering this disruptive COVID-19 period.

Effective rents were up 4.2% and blended lease over lease pricing including concessions was up 2.6%, in line with our seasonal expectations. Occupancy remained strong at 95.7%. Before shelter in place began in mid-March (3/16), occupancy was 95.9% and our 60-day exposure, which is all vacant units plus notices though a 60 day period, was just 7.6%. This was 40 basis points better than last year. In short, we headed into the COVID-19 disruption with strong occupancy, low 60-day exposure and good embedded rent growth.

During the quarter, we completed 1,440 interior redevelopment units and upgraded 8,017 units with our Smart Home technology package. We felt it was prudent to pause both of these programs in March. We will monitor the demand for these two programs and return to production when appropriate.

Moving on to April and May trends.

Historically April is a month of accelerating pricing growth as we begin to move into the higher demand season of the year. As you will note from the lease over lease pricing including concessions information listed in the supplemental data, this year has not followed that trend. New lease leasing volume dropped 43% lower than prior year in the last week of March. However, the last 3 weeks' leasing volume has rebounded and is 6% higher than prior year levels. Our teams have been effective using our virtual and self-tour platform. We expect these practices to be further augmented by guided tours in May.

As expected, our current residents are choosing to stay with us and our resident retention trends are positive. Turnover for the month of April was down 8% vs April of last year. May, June and July renewal acceptance rates are all running ahead of last year.

We have worked diligently to identify and support those who need help as a result of COVID-19. 1.3% of our April billed rent is on a 60-day plan to pay that was established to aid those who were impacted by COVID-19. In addition to flexible payment plans for those affected by COVID-19, we have not charged late fees, [we have] frozen eviction proceedings and [have] actively worked to pair affected residents with local and national support resources. These changes will cause our late fee income to be lower in the second quarter.

Collections have been a focus. In April we have collected 98.0% percent of rent billed for April. When you add the 1.3% of COVID-19 affected resident payment plans that were mentioned earlier, we have accounted for 99.3% of April's billed rent, this is in line with prior year results. May rent payment trends are slightly ahead of April's patterns. As of May 5th we have collected or executed payment plans for 94.2% of our May billed rent compared to the 92.6% of cash collections and executed payment plans at the same point in April.

I'd like to echo Eric's comments and thank our teams as well. They served and cared for our residents and our associates well as we have grappled with the constantly changing implications of COVID-19. I am proud of them and grateful for their efforts and character.

Brad Hill

Thank you, Tom. We are certainly in unprecedented times and the transaction market fully reflects this reality. The transaction market is generally in a wait-and-see mode and the only transactions occurring are those that were either fully committed before COVID-19 hit, with their debt and equity lined up, or deals that have a strong, buyer-need to close, such as a 1031 exchange. Because of this slowdown in activity and in an effort to allow our associates to focus on our properties and our residents, we've elected to pause the disposition process of our Jackson, MS properties and we'll re-evaluate the sale of those assets at a later date. At this time, we have no insight into any potential cap rate changes due to the lack of activity. Going forward, due diligence processes will be extended, meaning it could be a few months before cap rates and pricing trends are more apparent.

We believe the changes taking place due to COVID-19 will potentially lead to more attractive investment opportunities through each of our platforms: land sites for future ground-up development, pre-purchase development where we partner with strong developers, and acquisition of existing assets. It's too early to say when the opportunities will begin to materialize but we continue to work closely with our network of brokers and developers to monitor a number of previously identified opportunities.

Since the pandemic hit, new development has shut down with most developers halting all predevelopment spending and many dropping land sites. Construction debt is non-existent, forcing developers to shelve many shovel ready projects. Due to our balance sheet strength and our available capital through our line of credit, we are receiving more calls from developers looking for capital. As we filter through all opportunities that come our way, we will remain very selective, cautious in our approach, and disciplined in our underwriting.

With the significant pullback in capital sources for new development, we expect new starts to decline significantly over the next few months, leading to a sharp drop in deliveries within our markets in a couple of years.

With regard to the acquisition of existing assets, we continue to monitor the fundamentals in our markets with a significant focus on newly delivered assets that are still in lease up. This segment of the market is likely to experience the most pressure as rents underperform, concessions increase, and stabilization is delayed. Additionally, agencies have pulled back on their funding of non-stabilized assets, limiting the buyer pool for this segment.

Finally, just a note on construction: we have been fortunate that all of the municipalities in which we operate have classified construction as an essential business and we have seen very little impact to the construction schedule of our development projects.

With that, I'll now turn the call over to Al.

Al Campbell

Thank you Brad and good morning everyone. I'll provide some brief commentary on the company's recent earnings performance, balance sheet activity, and then, finally a few comments on our outlook for the remainder of 2020.

Though the main focus of this call this morning is on April performance and May trends, it is important to remember that we did have a strong first quarter earnings performance. Our reported Core FFO for the first quarter, of $1.62 per share, was $0.03 per share above the mid-point of our guidance. The outperformance was essentially evenly split between favorable operations (primarily revenues) and other items below NOI, primarily favorable interest expense for the quarter.

Given the significant economic uncertainty related to COVID-19, we formally withdrew our guidance in March, and don't yet have enough clarity to re-establish full year guidance. But to provide as much information about current trends as we could, we added a COVID-19 Update section in our Supplemental Data package (pages S-11 and S-12), which includes key information about April, collections, leasing, occupancy, and other key metrics, and some additional very current information [as of May 5th] information about our May collections. As noted in our release, for April and May we provided flexible payment options and waived late fees for residents financially impacted by the pandemic. Thus far we've been encouraged by April and early May cash collections both for current rent and on deferred payment plans, but, as Tom mentioned, we expect fee performance to reflect more pressure in the near term, as partial resident payments are applied to rent first, and because we waived late fees and certain lease termination fees for impacted residents. You can find details for April fees along with historical context for this in the supplement.

As Eric mentioned, our general expectation is for the current leasing conditions to persist over the next few months, continuing to impact revenue performance. However, overall we expect operating expenses to remain fairly consistent with our original expectations, as we expect the two largest operating expense areas (personnel and RE taxes) to remain near early expectations for the year, with some benefits expected in maintenance costs from lower resident turnover, perhaps offset by slightly higher utilities and marketing expenses. Also, below NOI, we expect overhead and interest costs to trend somewhat lower than original estimates for the year, as hiring plans and short term borrowing costs will be impacted by the current economic environment.

Finally, it's also important to point out that many of the activities over the last few years to strengthen our balance sheet position us well in the current challenging environment. Our total leverage remains at a historically low level, and we have significant capacity provided by our $1 billion unsecured credit facility (which is expandable to $1.5 billion). Also, our debt maturities for 2020 are only $137 million, and our remaining development funding obligation for the year is a modest $175 million to $200 million. Also, though the capital markets have not fully recovered, recent transactions exhibit good access to public bonds and other forms of capital, especially for companies with strong credit metrics, such as MAA. We're positioned to not only weather the current stress well, but to eventually pursue opportunities that may result. Though we are committed to our current leverage range over the long term, given our current metrics and rating we estimate we could immediately invest $750 million in quality opportunities, funded with debt alone. For the appropriate opportunity and plan, additional capacity is likely available as well.

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