MAA

CONFERENCE CALL TRANSCRIPT: 4Q2019

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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. Our fourth quarter results were better than expected as improved rent growth and record low resident turnover continue to drive positive trends in overall revenue performance. Over the course of last year we focused on an opportunity to prioritize rent growth and pushed that agenda throughout the year. As a result, we carry good pricing momentum into the new year.

Based on our updated analysis we do now expect that the overall level of new supply deliveries in 2020 will run higher than in 2019. This will of course vary by market. As has been routinely commented on, the majority of the new supply continues to be higher-end product at a high price point. Based on our detailed submarket analysis, it is important to note that the new supply forecasted to deliver in our markets in 2020 will be at rents that, on average, will be 25% higher than the rent across our properties in the same submarkets.

While we are certainly not immune to the impact of new supply, we see this pricing gap as generating good long-term opportunity. The price point of our portfolio, the quality of our locations, the diversified nature of our submarkets, the strength of our operating platform and a number of new initiatives that we are rolling out in 2020, along with the pricing momentum that was built in calendar year 2019, will continue to support steady growth in NOI over the coming year.

One of the benefits surrounding the new and higher-priced product delivering into the market is the expanding redevelopment opportunity created at a number of our properties. The price spread between the new supply and the existing rents at our properties creates opportunity to upgrade and still offer attractive value to our leasing prospects, while also generating a very accretive use of shareholder capital. Our property upgrade and repositioning pipeline will expand in 2020, supporting above market rent growth at a number of locations over the next couple of years.

We continue to find select opportunities to capture disciplined new external growth. We begin the year with our new development pipeline at 2,100 units representing $490 million in new investment. In addition, we have 640 new units undergoing initial lease-up, representing $146 million in additional new investment. We did close on one new acquisition in Q4. Consistent with the transactions we executed on over the past few years, this was a newly built property undergoing initial lease up. We partially match funded the acquisition with new equity issued through our ATM program, thereby retaining plenty of growth capacity and protection for the balance sheet.

In summary, our Sunbelt markets continue to capture great demand. MAA's portfolio is uniquely balanced and well positioned across the region to capture this demand. Our redevelopment and new development pipelines are growing. Emerging new technologies and products will also support further NOI growth and the balance sheet is in a great position with ample capacity to jump on compelling opportunities.

I want to thank our team of Associates here at MAA for a great year of performance in 2019 and we look forward to another year of progress in 2020.

I'll turn the call over to Tom.

Tom Grimes

Thank you Eric and good morning everyone. Our operating performance for the fourth quarter exceeded our expectations. With the steady demand for apartments and our enhanced platform, we have continued momentum in rent growth and strong average daily occupancy.

Same store effective rent growth per unit increased 4.3% for the quarter. This is the seventh straight quarter of year-over-year improving ERU (effective rent per unit) growth. As a result, our year-over-year same store revenue growth was 4.1%, the highest it has been since 2016. Effective rent per unit increased 60 bps sequentially.

Revenue performance was led by steady momentum in blended new and renewal lease-over-lease pricing, up 2.6% for the quarter, which is 100 bps better than this time last year. In addition, average daily occupancy during the quarter remained strong at 95.7%.

As we wrap up January, average daily occupancy is still strong at 95.5% and compares to 96.0% in January of last year. Our 60-day exposure, which is all vacant units and notices through a 60-day period, is just 7.2%, 10 bps better than this time last year.

Looking forward, as Eric mentioned, our overall supply in our markets is expected to increase in 2020. The Dallas, Houston and Savannah markets are expected to be the most challenging. Based on our pricing progress last year along with current rent and exposure trends, we expect our leading revenue markets to be in Phoenix, Raleigh, Austin, and Nashville.

Of course, the new supply creates an opportunity for our redevelopment platform. In addition to our kitchen and bath program, we are underway with an amenity upgrade program at 10 communities. This $20 million to $25 million investment in 2020 is primarily focused on legacy Post assets where the product was built in excellent locations, and new supply continues to push the rent of the submarket up. In these cases, we can update leasing centers, hallways, and common areas; create shared work spaces, outdoor gathering areas and roof top decks to allow us to increase rent while still offering compelling value in these submarkets.

Our technology platform also continues to expand. Our overhauled operating system and new website has contributed to our ability to attract, engage and create value for our residents. Our tests on SmartHomes have gone well. The technology was installed in 15 communities with minimal disruption and has been well received by our residents. We expect to install 24,000 smart home units in 2020. Our high-speed internet access initiative is deploying and will be a contributor to 2020 NOI growth. We are also exploring a range of AI, Chat, Customer Resource Management and prospect engagement tools.

We are pleased with the progress our teams made in 2019 and greatly appreciate their efforts. We have a solid base of earned-in rent growth as we head into 2020 and are excited about the opportunities ahead.

Brad Hill

Thank you Tom and good morning everyone. I'll provide brief comments on what we are seeing in the transaction market as well as on our transaction activity in Q4.

As you are all aware, the transaction market continues to be extremely competitive with record levels of liquidity and demand for multifamily properties. Given the favorable migration and job growth trends that exist in our region of the country, investor demand for multifamily properties within our footprint continues to be robust, leading to deep bidder pools, aggressive pricing and compressed cap rates.

Reflecting the positive job growth and strong demand, we expect supply to increase in 2020. This increased level of supply should continue to support a historically high level of acquisition and pre-purchase deal flow. We remain disciplined in our capital deployment decisions and Al and his team have our balance sheet in great shape, allowing us to respond to compelling investment opportunities as they materialize. As we've done in the past, we'll continue to focus our acquisition efforts on new lease-ups. In Q4, we closed on the acquisition of The Greene in Downtown Greenville, South Carolina. This was a recently completed asset involving a developer and equity provider we've worked with in the past. The asset was still in its initial lease-up with the equity requiring a certain and quick close by year end. We were able to execute on the acquisition at a stabilized market cap rate of 5.1%.

In 2020, we'll also continue to pursue pre-purchase opportunities. As a reminder, this is a program where we partner with good developers that have access to great real estate. We bring the capital to the venture and in return we get access to an asset at a reduced basis with a clear path to 100% ownership at stabilization. This program allows us to selectively pick well located, to-be-built assets while minimizing our overall development risk. In Q4, we closed and started construction on a 264-unit pre-purchase located 9 miles southwest of downtown Orlando, in the very desirable, high income, Dr. Phillips area.

And finally, in Q4 we took advantage of strong investor demand and pricing and sold all 5 of our assets and exited the Little Rock, Arkansas market. We had over 25 qualified bidders offer on these properties. We achieved good pricing for this non-core market with 24-year-old properties, equating to a 5.4% market cap rate. We will continue to selectively prune our portfolio on an ongoing basis and we'll have more to say about our specific 2020 disposition plans in coming quarters.

With that I'll 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 fourth quarter earnings performance, major financing activity, and finally on our initial guidance for 2020.

Reported FFO per share of $1.68 for the fourth quarter was $0.05 per share above the midpoint of our guidance, with the majority of this outperformance produced by property NOI, as both operating revenues and expenses were favorable to expectations for the quarter. FFO per share was $6.55 for the full year, which included several items considered unusual or not core to our business, such as mark to market valuation of preferred shares and gains on sale of land parcels. Excluding these non-Core items, FFO for the full year would have been $6.26 per share. As discussed more in a moment, we are providing earnings guidance for 2020 on a Core FFO basis, which we believe will provide a clearer picture of performance.

We were active on the financing front during the fourth quarter, as we issued $300 million of new public bonds. We also retired $170 million of unsecured loans and $17.2 million of additional secured debt. The effective interest rate of the new bonds will be 3.1% over ten years, after considering the interest rate hedges related to the financings. We ended the year with 98.4% of our debt fixed with an average duration of almost eight years, which is a record for the company. During the fourth quarter we also issued $20 million in equity through our ATM program, essentially match-funding a portion of the Greenville property acquisition.

Finally, we are providing initial earnings guidance for 2020 with the release, which is detailed in our supplemental information package. We're providing guidance for net income per diluted common share, which is reconciled to FFO, Core FFO and Core AFFO in the supplement. Core FFO for the full year 2020 is projected to be $6.38 to $6.62 per share, or $6.50 per share at the midpoint. The definition of Core FFO, including a description of the items considered non-core, can be found in our supplemental package.

The primary driver of 2020 earnings performance is same store NOI growth, which is projected to be 3.5% at the midpoint.

Effective rent growth for the year is expected to be around 3.7%, produced by 2020 lease-over-lease blended rental pricing growth of 3.4% at the midpoint, combined with the 2019 blended rental pricing of 4.4% achieved. This pricing combined with a slight decrease in average occupancy to 95.8% average for the year brings projected total rental revenue to the 3.5% range. Fees and other income items combined are projected to add an additional 20 bps to 25 bps to revenue growth for the year, with the primary driver being a 55 bps contribution from the Double Play bulk internet program, which is partially offset by other fees and reimbursement items which are projected to remain essentially flat for 2020 primarily due to slightly lower occupancy. These items combined to produce our total same store revenue growth expectation of 3.75% for 2020, at the midpoint.

Same store operating expenses will continue to have some pressure from real estate taxes and insurance costs for the year. We will also have the additional expenses related to the Double Play bulk internet program which is recorded on a gross basis. These items combine to produce projected same store expense growth of 4.25% for the full year, at the midpoint.

Our forecast also assumes a modest increase in overhead costs just below 3% for the year and continued use of our ATM program to essentially “match fund” expected acquisitions for the year, with $80 million of new equity issuance projected, assuming we find accretive uses of capital during the year.

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