MAA

A Brighter View

# CONFERENCE CALL TRANSCRIPT: 4Q2011

**February 3, 2012 9:15 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 this morning, 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**

Thanks Leslie. And thanks to everyone for joining our call this morning.

Our fourth quarter and our full-year 2011 FFO per share results were the strongest performances in our company's 18 year history. And we expect continued positive momentum this year with growth in same store NOI exceeding the results from 2011. At the mid-point of our guidance, we expect to capture over 9% growth in FFO per share this year and deliver another record performance for the company.

The demand for apartment housing is likely to remain strong across our markets as the factors driving this demand are going to continue for some time. Employment trends are improving and the outlook for household formation in our Sunbelt markets are forecast to out-pace the national trends. Resident turnover remains low and we don't believe single family housing, either as a for sale product or a rental product, is likely to have a significant impact on our business for the next couple of years.

While there is a growing effort to get new multi-family development going in a number of markets, permitting activity and the forecasts that we review suggest that new supply trends in our markets are very manageable relative to growing demand and we expect continued positive absorption. The developer balance sheets and sponsors that are able to secure construction financing continue to primarily focus on the coastal markets and inner core sub-markets that aren't likely to have a meaningful impact on most of our locations. The new supply outlook in our Sunbelt markets is running well below historic norms.

So, overall, we expect 2012 to be a year of continued strong performance and expect that both same store NOI and FFO per share will surpass 2011's record performance.

Positive year-over-year leasing trends continued during the fourth quarter and through January. Leasing traffic in the fourth quarter grew 7.2% as compared to a year ago.

With continued low resident turnover and strong leasing traffic, pricing momentum remains very positive. As compared to the prior year, new lease pricing in the fourth quarter was up 4.5% on top of the very strong 7.4% growth posted last year. Renewal lease pricing on the same basis grew 5.7%. With average effective rent trending up in each of our markets across both our large and secondary portfolio segments, on both a year-over-year and sequential quarterly basis, we expect continued solid revenue momentum in 2012.

We were pretty active last year with new acquisitions, as well as starting three new development projects. We are currently underwriting a number of opportunities and as outlined in our 2012 guidance we expect another busy year of acquisitions. We also noted plans in our earnings release concerning a new development opportunity in Charleston, SC that we expect to get underway this year. As with our other three development projects, we are working with an outside developer who will oversee the development and construction, with our team handling the lease-up. We don't have any other development opportunities currently on our radar screen and remain committed to a strategy of deploying capital for growth primarily through acquisitions as opposed to new development, particularly as new development and delivery begins to pick up in 2014.

You'll note that in our guidance for 2012 we also plan to step up our capital recycling efforts with plans to sell around $100 million of existing wholly-owned properties. We're committed to ensuring that we maintain a high quality and efficiently operating portfolio. At 16 years average age, MAA continues to have one of the younger portfolios in the sector.

In summary, we're excited about the outlook for 2012 and the opportunity to capture another record year of performance for MAA.

I'll now turn the call over to Al for more insights on the quarter and our guidance for 2012.

**Al Campbell**
Thank you Eric and good morning everyone. I'll provide comments on earnings performance for the fourth quarter, as well as a few highlights regarding investing and financing activities. FFO for the quarter was $43.1 million or $1.07 per share, which was a penny ahead of the mid-point of our guidance for the quarter.

Earnings performance was driven by the same store portfolio, which produced 4.7% NOI growth over the prior year, based on a 4.9% increase in average effective rent. Physical occupancy ended the quarter at a strong 95.2%, 60bps below the prior year. Total revenues grew 3.6% during the quarter, while operating expenses grew 2.0%.

Resident turnover remained low at 55.9% at the end of the year, with only 17% of move-outs during the quarter being related to home-buying, compared to a historical average of around 24%.

Operating performance met expectations for the quarter, while favorability in interest expense produced the majority of the additional penny per share compared to our forecast. We did have three non-recurring items in the fourth quarter (a gain on sale of non-real assets, a loss on debt extinguishment, and a charge for employee severance costs) which essentially netted to have no significant impact on the quarter.

Our strong acquisition pace continued during the fourth quarter, as we purchased three new properties for a total of $101 million, bringing the full year investment volume to $425 million, including a $25 million property purchased on behalf of the joint venture, and development funding of about $38 million for the year. All three properties purchased during the fourth quarter were stabilized on acquisition, and represented an average cap rate of about 6% on the first year's projected cash flows.

During the fourth quarter, we sold one community, located in Houston, for total proceeds of $12.9 million. Also as part of our 2011 disposition plans, in January we closed on the sale of an additional community in Houston for $22.6 million. These transactions bring total proceeds related to our original disposition plans for the year to $46.5 million from three communities averaging 20 years of age, at an average sale cap rate of 6.7%.

Progress continues on the three communities currently under development, which are still expected to cost about $110 million in total. We funded about $16 million during the fourth quarter and expect initial deliveries and occupancy at two of the communities during the first quarter of 2012. As mentioned in the release, we are also under contract to acquire land and develop an additional 270-unit community in Charleston, South Carolina. This new community is projected to cost about $32 million, and we expect to close on the land parcel and begin construction in early 2012.

We continue to make solid progress on long term financing plans and achievement of a full investment grade rating. As you saw in our earlier releases, during the fourth quarter we closed on a new $250 million unsecured credit facility which has a maturity of four years and is expandable to $400 million. This new facility provides us the capacity and flexibility we need to maintain our balance sheet advantage and to fund growth on an unsecured basis. We ended the year with over 31% of our assets unencumbered. During 2012 we plan to fund all new acquisitions and refinance about $150 million of current debt with additional unsecured borrowings, which is expected to increase our unencumbered asset pool to more than 40% of gross assets by year-end, putting us in great position to pursue additional ratings.

In order to fund the equity portion of our acquisition and development activity during the fourth quarter, we raised $65 million in net proceeds by issuing 1.1 million new shares of common stock at an average price of $58.68 per share. We ended the fourth quarter with our leverage (defined as net-debt-to-gross assets) at 46% while our EBITDA for the quarter covered fixed charges 3.8 times.

Finally, we provided initial earnings guidance for 2012 in our release. Our full year guidance is for FFO of $4.25 to $4.45 per share, which is $4.35 per share at the mid-point (more than 9% growth over 2011). Our estimate includes full year same store NOI growth of 5% to 6%, based on revenue growth of 4.5% to 5.5% and operating expense growth of 3.5% to 4.5%. A large portion of the expense growth in 2012 is expected to come from real estate taxes (representing about a quarter of operating expenses), which are projected to grow 4% to 5% in 2012.

Other key assumptions include our projected acquisition volume of $300 million, disposition volume of $100 million, and development funding of $80 million for the year. We expect our leverage (defined as net-debt-gross-assets) to range between 45% and 48% during 2012, ending the year near the bottom portion of the range, while we expect our total average interest rate to be around 4% for the year.

We anticipate property management expenses of about $21.5 million and G&A expenses of about $15 million in 2012, combining to total about $36.5 million for the year. The projected decline in G&A is primarily related to the $1.8 million non-cash charge and other one-time items affecting 2011.

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