Mid-America Apartment Communities, Inc. (NYSE: MAA)
Fourth Quarter 2008 Earnings Release Conference Call
February 6, 2009

Leslie Wolfgang:
Good morning. This is Leslie Wolfgang, Director of External Reporting for Mid-America Apartment Communities. With me are Eric Bolton, our CEO, Simon Wadsworth, our CFO, Al Campbell, Treasurer, 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 can be found on our website.

I'll now turn the call over to Eric.

Eric Bolton:
Thanks Leslie.

As reported in yesterday's earnings release, Mid-America ended 2008 on a positive note. Despite a challenging market environment, funds from operation, or FFO, in the fourth quarter was 1 cent per share ahead of the mid-point of our guidance. For calendar year 2008, FFO per share grew by 5% and importantly was only 2 cents per share below the mid-point of our original guidance. This is worth noting given that our original 2008 guidance issued last February did not contemplate the significant deterioration in leasing fundamentals that occurred over the last few months of the year, nor did our original guidance assume we'd raise $104 million of new equity during the year. Achieving 5% growth in FFO per share, and performing largely in line with our original expectations, despite these challenges, reflects a number of positive aspects about Mid-America's strength and stability in portfolio strategy, operating platform, financing strategy and our approach to deploying capital.

These same strengths are what now enable Mid-America to be well positioned for what will obviously be a more challenging operating environment in 2009. As we consider the forecast for 2009 we believe that, consistent with the last down-turn for apartment fundamentals, Mid-America will weather the weaker leasing cycle better than most. There are several aspects to our earnings platform that enable Mid-America to deliver strong financial results during up-cycles, and to better weather down-cycles, without putting the balance sheet at risk, without writing off significant asset value and without raising real concern about the dividend. We were able to demonstrate some of these strengths in the challenging fourth quarter just ended and believe they will continue to support our performance in 2009.

The first key attribute to our earnings platform is of course our portfolio strategy. While it's clear that this recession is touching most every employment sector, Mid-America's diversified market profile also provides solid diversification across various employment sectors and avoids significant exposure from job loss from any one particular industry. And somewhat unique to Mid-America's strategy among the other multifamily REITs is of course our heavier allocation to secondary markets. As demonstrated during the last down turn, and as demonstrated in the fourth quarter, Mid-America's secondary market segment held up comparatively well. Our portfolio, having avoided significant concentration in some of the worst single-family housing markets, is, we believe, going to continue to be a net beneficiary of the long-term correction underway in the single-family housing market. We continued to see an overall decline in resident turnover in the fourth quarter; with our largest drop in turnover once again occurring in those move-outs due to home buying. We expect our portfolio strategy focused on the Sunbelt region's higher employment growth, and diversified across both primary and more stable secondary markets, will demonstrate more resistance to the pressures of the recession and also provide quicker recovery. With the access to new development capital very, very limited, and expected to be so for some time, the supply side of the equation is not going to be a pressure point in most of our markets for at least the next couple of years.

Taking a look at our markets and expectations for 2009 we expect that we will see our biggest challenges in Atlanta and Jacksonville. While Phoenix will also be a challenge, we of course have only two properties presently in that market. Markets that we believe will continue to hold up comparatively well are Dallas, Houston, Raleigh and a number of our secondary markets such as Jackson, Little Rock, Tallahassee, and Lexington. We were encouraged with occupancy results in January as same store physical occupancy increased 70 basis points from year-end and we ended the month at 94.2%.

In addition to the strength of our portfolio strategy, we're very encouraged by the continued progress and capabilities of our operating platform. We believe the tools and capabilities we have in place, particularly in our secondary markets, provide a real competitive advantage. During 2009 we have a number of additional new initiatives we plan to roll-out including a revised platform for billing rent and utilities, a new bulk-cable initiative, enhanced wed-based leasing and prospect follow-up tools, and improved inventory and get ready protocols. We made several changes in our collections platform during 2008 and continue to see strong results. Despite the deterioration in the economy in the fourth quarter, net collection loss in the fourth quarter was only 4 tenths of one percent, a record performance for the company. This speaks to both the strength of our screening and collections operations, and also the quality of our assets. Our unit interior and property redevelopment initiative made great progress during 2008 and captured very attractive returns on the capital invested. Given the weaker leasing fundamentals expected in 2009, we are planning to moderate the program this year and are targeting to renovate only about half as many units as we did in 2008. In addition, we will be focused on executing our lighter or scaled-down version of the renovations.

The last point I'll make about our positioning for this part of the cycle concerns our balance sheet. We believe that Mid-America has one of the strongest balance sheets in the sector. Our leverage is at the lowest point it has been in our 15 year history as a public company. Our fixed charge coverage ratio has never been stronger. We've already addressed what little refinancing requirements we have over the next couple of years. We have significant balance sheet capacity. And, Mid-America has one of the lowest dividend pay-out ratios in the apartment REIT sector. When you combine these strong metrics with the fact that our balance sheet is not burdened with supporting a new development operation and is supported by an income statement with a high degree of recurring earnings, we believe Mid-America's balance sheet is well positioned for this part of the cycle.

We remain confident that there are going to be some terrific buying opportunities over the next couple of years and we are busy underwriting a number of deals. Overall the bid-ask spreads remain fairly wide at this point but as the weaker leasing environment continues to play-out, we're optimistic that we'll see our underwriting generate pricing that sellers, or their lenders, are more willing to accept. We have a long track record of disciplined underwriting and capital allocation; it has kept us out of trouble over the years and it is certainly another aspect of our strategy that puts us in a solid position for this part of the cycle today.

Our 2009 forecast contemplates further weakening in the employment markets and we have taken a number of steps to pull back on expenses. In addition to aggressively managing expenses at the property level we are projecting a reduction in our general and administrative expenses of close to 8.5% as compared to 2008. Actions include suspending funding of the Employee Stock Ownership Program in 2009 and suspending the company match on our 401K program. In addition, our executive officer staff will forgo salary increases this year. And of course we expect that bonus compensation associated with 2009 performance will be materially below 2008's results. I'm proud and appreciative of the positive response from our Mid-America associates to these actions as we all work to keep the company strong through this weak part of the economic cycle and ensure that we are well positioned for the very strong outlook developing for late next year and into 2011.

We are optimistic about the prospects for our business. With a continued trend towards a normalized mix of single-family and multi-family housing, and a dramatic curtailment in the expected delivery of new apartment properties for the foreseeable future, once the economy stops shedding jobs, we expect the recovery in leasing fundamentals to be quick and strong.

The pull-back in the capital markets is now clearly pricing a number of REITs at some very compelling values; including Mid-America. Currently trading at an implied cap rate of 8.25, which implies a value significantly below anyone's definition of replacement cost, while also currently yielding around 8%, against one of the stronger dividend pay-out ratios in the sector, supported by a balance sheet that is in great shape, facing no refinancing requirements and positioned to capture new value growth, we believe Mid-America offers an attractive opportunity.

Simon Wadsworth:
Our fourth quarter FFO per share of 92 cents was 1 cent ahead of the mid-point of our guidance. Performance was driven by three key elements: despite weakening employment, our operating results were close to our forecast; our property management and G&A expense was $900,000 below the same quarter a year ago; and our interest expense was also below our forecast as rates began to trend down, reflecting an average interest rate of 4.8% compared to 5.2% for the same quarter a year ago.

In the fourth quarter the markets were tougher than anyone expected, but we still performed quite well, although our good operating performance was masked by some one-time items and some unusual comparisons. Year-over-year same store revenue growth was 0.2%, despite the worse than expected job losses and the tough comparison of the very strong fourth quarter in 2007. Two markets – Atlanta, and to a lesser extent Jacksonville - were weak, and dragged down our same store revenue performance; absent these two markets, our same store revenues increased 1.0%.

Same store expenses prior to taxes and insurance increased 1.5%, and this included $310,000 of expenses attributable to Hurricane Ike. Excluding the Hurricane Ike expenses, the increase was only 0.1%. Including taxes and insurance, total same store expenses increased 3.6%, but again this was comparing to an unusual fourth quarter of 2007 when same store expenses dropped 1.2% because of favorable real estate taxes. As a result last year's fourth quarter tax adjustments, our same-store real estate taxes increased 7.8%.

If you normalize the real estate tax increase and eliminate the 'hit' from Hurricane Ike, our NOI for the quarter goes from a negative 2.1% to a negative 0.7%. So our reported NOI was not necessarily indicative of our performance in these changing market conditions.

For the full year, our FFO per share was $3.73, almost at the mid-point of our initial guidance for 2008, and 5% above 2007. Although the markets were tougher than we forecast, we made up for almost all the shortfall in NOI through reduced G&A and interest rates. We also ended the year with less debt than planned since we raised over $100 million of new equity, at almost $53 per share net of costs. We continued our investment in projects that deliver long term value, but carry short term FFO dilution, such as our modest development program and properties in lease-up. Together, we estimate that our lease-up properties cost us over 16 cents of FFO dilution in 2008. This should drop to approximately 7 cents in 2009.

For the full year, AFFO was $2.99 per share, comfortably ahead of our $2.46 per share dividend, and one of the best dividend coverages of the sector. Excluding the redevelopment program, total property capital expenditures at existing properties were $31 million, $753 per unit, or $1.05 a share.

Revenues in our secondary markets outperformed our primary markets, helping to reinforce our view that the secondary markets tend to be pretty stable during a downturn in the economy. Of our primary markets, our three Texas markets, plus Raleigh/Durham showed good growth, while, as I mentioned previously, Atlanta was weak, as (to a lesser extent) was Jacksonville. NOI growth in several markets, and notably Houston, Dallas, Jacksonville, Tampa and Savannah was impacted by favorable adjustments to the real estate tax accrual in the fourth quarter of 2007.

Turnover decreased 3.7% for the quarter compared to the same period a year ago mainly because of a 20% decline in people leaving us to buy a house, which dropped to 21.6% of move-outs from 25.8% in the fourth quarter of 2007. On a trailing 12-month basis, turnover dropped to 61.3% from 63.5%. Our delinquency for the quarter was still encouragingly low at 0.4%, down from 0.5% a year ago, although we expect that this will be under pressure in 2009.

We have one of the strongest financial positions of the apartment REITs. We have taken care of our next 2 years' debt maturities. We put in place new loans in the fourth quarter of last year designated to replace our only maturity in 2009, a $39 million bank facility. Our only 2010 maturity, our $50 million bank credit facility, is more than covered by capacity under existing credit arrangements, although we expect to refinance this in the normal course of business.

At December 31st, our debt to gross assets was 50%, down 300 basis points from a year ago. This compares with 55% for the apartment sector as a whole. Our fixed charge coverage in the fourth quarter was 2.51, well ahead of 2.36 a year ago, and also well ahead of the sector median of 2.3.

As we detail in the press release, at year end we had $183 million of debt capacity available under our Fannie Mae and bank credit facilities, of which $39 million is designated to fund the loan maturity in April. We have a further $30 million of our existing credit facilities available to be collateralized once we need the capacity, which takes our potential availability to $213 million.

In 2009, we have re-pricing opportunities on a $25 million swap that matures April 1st and $65 million of debt that re-sets to variable rate on December 1st. These are not mortgage maturities, but just a re-pricing opportunity of in-place credit facilities. They are at an average rate of 6.9%, and we anticipate that the new swapped rate will be an average of 4.2%, potentially 8 cents of savings on an annualized basis. The savings in 2009 will only be about 1 cent, with the full-year impact not being realized until 2010.

About 20% of our debt is floating rate, which we find is a natural hedge against changes in the economy. Our Fannie Mae variable rate debt that re-priced in January was at 1.26%, down from 4.6% in November, which will obviously help us substantially as the first quarter of 2009 progresses.

To give you an idea of recent Fannie and Freddie pricing, the loans that we put in place in November and December were single asset 7-year loans at 65% LTV. The first loan was fixed at 6.2%; the second was a capped loan floating at 323 basis points over the Freddie

Reference Bill, currently costing us 3.4%. While rates have come down since our November financing, it is quite likely that Agency spreads are going to stay wider than they have been in the past. Two weeks ago we heard talks from the heads of multifamily lending for both Fannie Mae and Freddie Mac, and they indicated that the Agencies, and the new regulator, are very supportive of their multifamily programs.

Our 2009 forecast detailed in the release takes into account the recession, with further job losses taking average unemployment for the year to a range of 8% – 8 ½%. The impact of this is partially mitigated by the continuation of the shift of households back to the rental market, and reduction of resident turnover, as well as a relatively more robust employment picture in our southeastern high growth markets compared to the national picture.

We've given some color on our 2009 forecasts in the press release. We are projecting around a 1% drop in same-store revenues, and approximately a 4% drop in same-store NOI. We have several property revenue and expense saving initiatives that are helping to offset weakness that we'd otherwise expect. Based on the expected revenue shortfalls in local government we project a 5% increase in real estate tax expense. Because of G&A and interest rate savings we believe our FFO will be in a range of $3.40 to $3.60 per share.

As we point out in the release, we also have to absorb the impact in 2009 of the implementation of FAS141R, which requires us to expense transaction costs that were previously capitalized. Based on our current set of assumptions, this non-cash accounting change will cost 4 cents per share of FFO in 2009.

We completed the sale of one property in Greensboro, North Carolina, Woodstream, in January. This 25-year old property was sold for $11½ million, at around a 7.7% cap rate. We have two other properties under contract for sale, Riverhills in Grenada, Mississippi, and River Trace in Memphis, with total proceeds estimated in the $19 million range, around a 6¼% cap rate. All three properties were listed as 'held for sale' at year end. We haven't forecast additional dispositions in 2009.

In 2009 we expect property capital expenditures to moderate 7% to $30 million, or just under $1.00 per share, with recurring capex in the region of $21½ million, or 70 cents. In addition, we project development funding of $6 million, down from $25 million in 2008, and $10 million of redevelopment expenditures, about half of the 2008's level.

We anticipate that we'll invest approximately $75 million in new acquisitions, and contribute about $9 million for our share of the equity in Fund II, our proposed new joint venture. We assume that this second joint venture will be structured similarly to Fund I (we'll invest 1/3 of the equity in an entity that is 65% leveraged). Our forecast also assumes that we make $75 million of acquisitions in the second half year into Fund II, although our FFO guidance is not dependent on this, as we don't expect significant earnings accretion in this first year. We plan to finance our investment program with the $30 million of asset sales and our existing credit facilities, which we've mentioned have plenty of capacity; we forecast leverage increasing only 90 basis points by the end of the year, with debt rising from 50.4% to 51.3% of gross assets.

As reported our AFFO in 2008 was $2.99 per share, and we're forecasting a range of $2.70 to $2.90 per share for 2009. Our dividend payout ratio in 2008 was 82% of AFFO one of the lowest in the sector, and compares to 90% for the sector median. In 2009, we're projecting our payout to rise to 88% at the mid-point of our forecast, still a strong position compared to most of the others. As a point of emphasis, we believe that REITs are structured around the provision of a steady and secure cash dividend, and absent a major deterioration in the apartment or financing markets, we don't plan any changes to the cash distributions for 2009.

Eric Bolton:
Thanks Simon. Last week marked the 15-year anniversary of Mid-America's IPO. It is worth noting that despite the significant fall-off in our stock price over the past year, the annual compounded return delivered to shareholders over that 15 year period is almost 11%. That performance over the same period of time beats the S&P 500 by roughly 500 basis points, it beats the overall REIT index by over 300 basis points, and it beats the overall apartment REIT index by over 200 basis points.

Our record of performance and strategy for creating value continues to be centered on disciplined capital allocation practices, maintaining a high quality portfolio of assets, focused on building high-quality and recurring earnings, and supporting future growth and a cash dividend through maintaining a strong balance sheet. We believe it is just as important to be able to weather down-turns effectively as it is to prosper during robust parts of the real estate and capital markets cycle. We're confident in our ability to perform during this down part of the cycle and we're excited about the opportunities in front of us.

That is all we have in the way of prepared comments.