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Mid-America Apartment Communities, Inc.
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EXECUTIVES

A. Bradley Hill
Executive VP & Director of Multifamily Investing

Albert M. Campbell
Executive VP & CFO

H. Eric Bolton
Chairman, President & CEO

Thomas L. Grimes
Executive VP & COO

ANALYSTS

Austin Todd Wurschmidt
KeyBanc Capital Markets Inc., Research Division

Presentation

Austin Todd Wurschmidt
KeyBanc Capital Markets Inc., Research Division

Okay. I think we're kicking things off here. Good morning, everybody. I hope everybody is doing well. Welcome to day 1 of Virtual REITworld. This is the Mid-America Apartment Communities panel. I'm Austin Wurschmidt, the apartment REIT analyst at KeyBanc Capital Markets. I'm pleased to have with me today Eric Bolton, Chairman, President and CEO; Al Campbell, CFO; Tom Grimes, COO; Brad Hill, Director of Investing; and Tim Argo, SVP of Finance.

Before we jump into Q&A, I'm going to pass it over to Eric to begin and run through some opening remarks. Eric?

H. Eric Bolton
Chairman, President & CEO

Thanks, Austin, and good morning, everyone. Thanks for joining us. I thought I would just give you kind of a brief overview of where things stand in terms of our leasing performance and a little bit perspective on sort of how we see things shaping up for next year and beyond. We did file a presentation on Friday after market closed, and I think it's probably on your screen now.

And as outlined in the first few pages, where we updated our performance trends through November 12, we do continue to see good results with strong rent collections, continued recovery and rent performance and continued strong occupancy. I'm particularly encouraged by the steady improvement in rent performance. We're showing somewhat countercyclical tendencies [indiscernible] moderation that we typically see at this point in the leasing year.

It's interesting to note that on a blended basis, including both renewal and lease -- new and renewal lease pricing, last year in 2019, we saw rents fall on average about 100 basis points between Q3 to late October. And as shown on Page 4 of the presentation, this year in 2020, we've actually seen effective rents on the same basis to actually capture a 30 basis point improvement since October. And on a basis of looking at the leases that are actually signed during October and November so far, it's actually -- the trends are even better.

So I'm particularly encouraged by that improvement in the trend and the countercyclical nature of it. It suggests to me that we are, in fact, in the early stages of some level of recovery. We believe that our diversified focus on the Sunbelt markets should continue to provide a resilient backstop to the pressures associated with this weaker economy and employment markets.

While leasing conditions clearly weakened in spring and summer across our footprint due to COVID, the related -- the growth appeal of our Sunbelt markets to employers and households is pretty apparent and, we believe, positions our portfolio to capture meaningful upside and outperformance as the recovery cycle eventually gets really underway.

We believe that a combination of our high-growth markets and recovery in rents that we have available to capture, the redevelopment opportunities within our portfolio, especially within the legacy Post portfolio, along with the margin expansion opportunities associated with a number of new technology initiatives that are underway, against the backdrop of moderating new supply trends towards the back half of next year really puts the company in a solid position to drive good performance over the next couple of years.

In addition, as outlined in our presentation update, we are making good progress with our new development pipeline, and we'll be introducing a more robust external growth profile for the company over the next couple of years. And of course, all of this is supported by a solid balance sheet with plenty of capacity to support this growth. So it's interesting in that there continues to be a private equity focus on our markets. And despite the weakened NOI produced in 2020, we've actually seen cap rates come down a little and values certainly remain very strong.

So in summary, I would just say that we clearly have a ways to go before pressure surrounding COVID meaningfully dissipate and life returns to more normal conditions, but we have and continued to show an ability to withstand these pressures. And while we have some pressures over the next couple of years associated with legacy actions taken over the next couple of quarters, I should say, we will have some pressure over the next few quarters associated with some of the actions that we took back in the spring and summer with lower levels of rent -- of renewal leases and the continued high levels of new supply delivery in the number of markets.

So based on what we're seeing now, recovery continues to be evident and is clearly taking shape for the reasons noted a moment ago. I'm pretty optimistic about how things are shaping up for us going into 2021, particularly as we get towards the back half of next year, which I think also sets up for a very strong 2022. So Austin, with that, I'm going to hand it back to you, and we'll move into questions.

Question and Answer

Austin Todd Wurschmidt
KeyBanc Capital Markets Inc., Research Division

Great. Thanks, Eric. A lot of good detail in there to unpack. And so I'm going to kick things off first off with some questions. [Operator Instructions] So first thing, Eric, I guess the big news and I guess what's changed since earnings is really the vaccine news and some of the success that we've heard about there. And I'm just curious, as you start to think about the rollout and distribution of the vaccine, how does that really change the outlook for your business? And what are you doing to prepare for that rollout?

H. Eric Bolton
Chairman, President & CEO

Well, I think that -- first, I will say, I think the rollout and sort of getting back to normal is likely to take a bit longer than perhaps what people may think. I just believe that when you start to think about the logistics surrounding the rollout of the vaccine and the actual process of everyone being vaccinated and then people being comfortable with all that and comfortable to sort of resume their lives in a more normal way, I just believe that that's going to take quite some time.

Having said that, clearly, we think that our Sunbelt markets are going to continue to find favor with employers and with households. We saw those trends clearly before COVID started. I mean there was already -- it's been this way for the last several years, growing evidence that employers were looking to bring jobs out of some of the higher-cost coastal markets. And those trends, of course, I expect will continue. COVID, I think, exposed some of the reasons behind those trends and perhaps accelerated thinking on inactions, if you will, to some degree on that.

There's been some things that -- first of all, I think to answer your question, Austin, we like our strategy. We like the [properties] that we have. We like the very unique diversification we have across the Sunbelt, both large and mid-tier markets across a number of submarkets and across a number of price points. So we think that diversification, unique diversification across this very high-growth region of the country is poised to see, I think, very good migration [and some] population growth puts the company in a very good position.

And then during this period of COVID, we've all learned some things about how to use technology in more ways, in more robust ways. In our case, of course, virtual leasing has become much more prevalent, and we think that those trends will continue post COVID. We'll be rolling out some new tools and technologies over the course of this year, which we think will create continued differentiation against a lot of the private platforms that we compete with in a number of our markets and create more competitive advantage for us. So I just think that there's some -- and then how we utilize formats like this for messaging and communicating and meeting, I think, is going to continue to have an impact on how we think about executing our business.

All of this has, I think, positive margin implications, particularly for the larger platforms like ours that can use technology in a more aggressive manner. So I'm pretty optimistic about sort of where we think things are headed out of COVID. And as I said at the start, I think we got a ways to go, but I think we continue to show that we've got a certain resiliency to both our platform, our portfolio and our strategy that will serve us well as we continue to work through this.

Austin Todd Wurschmidt
KeyBanc Capital Markets Inc., Research Division

Yes. No, certainly, I think it's fair to say with some of the operations detail that you provided and just the results you've posted year-to-date, you've had more stable of an operating environment. You've actually seen some improving trends, and you referenced the fact that seasonality has been less of an issue. Can you speak to some of the traffic trends and maybe the conversion rates that you guys have had on traffic? And do you think that it's broad-based across your markets? Or that some of those items you spoke to like virtual leasing is allowing you to steal share from some of your competitors in your markets?

H. Eric Bolton
Chairman, President & CEO

Tom, do you want to take that, Tom?

Thomas L. Grimes
Executive VP & COO

Yes. Sure, Eric and Austin. I mean the lead volume is showing its normal seasonal pattern, if you will, but it's much stronger than last year. And our number of leases that have occurred in November month-to-date are flat over last year, and that's allowing us to produce the results that Eric touched on in his comments and that you can see on Slide 4. But -- and it's pretty -- it is broad across the board, Austin. We do -- we saw some people that were slow to get back in the office this summer. We were -- our offices were open for traffic. Our teams were there throughout COVID for service. They opened for traffic as of May 4. And that gave us a month or 2 of head start in that critical leasing season, which I think allowed us to get our feet under ourselves and really push the momentum through today. We do see some markets and some isolated players that are still not open in doing [towards] the office, but the majority in our markets have returned.

Austin Todd Wurschmidt
KeyBanc Capital Markets Inc., Research Division

That's helpful. Good color there. I mean what's been the receptivity to -- you've continued to push more on renewal rates. You've had success. And I guess what's the receptivity from tenants as you do push harder? And maybe kind of weave in a little bit on turnover and what you've seen late into the year as far as turnover trends and maybe just over the last several months for folks.

Thomas L. Grimes
Executive VP & COO

As we've returned, what I would say is not so much pushed harder on renewals, but returned to our normal practices. We've seen renewal rates get back into the normal range of 5 to 6, and our accept rates are higher or in line depending on market as they have been in prior years. So I mean, frankly, that's probably the #1 [indiscernible] feedback that we're getting is are people willing to pay more for our product? Are we creating value for them? And we've been able to do that while raising our customer service scores across the board.

So one of the things that we did right out of the chute was communicate actively and often with our [resident core], letting them know what is going on and how we're there to serve them. And we're pleased with the results on renewals and expect that trend to continue.

And then just in terms of the overall turnover trends, November is a little early to give you an insight on through October. October was down 2.5%. The division [in October] was down 2.7%. We expect that to continue. We're still not seeing meaningful move-outs to home buying or to rent from homes. Those have kind of [indiscernible] numbers they've been in for a long time. We really feel like our resident base, which is majority female, 75% single [indiscernible] to keep them safe and give them options for their living choices.

Austin Todd Wurschmidt
KeyBanc Capital Markets Inc., Research Division

Yes. No, you kind of hit on one of my next one, which has been a key theme, I guess, this year, is that home purchase activity has seen an increase. And I guess, given the demographic of your renter base, do you think that you guys were a little more insulated from move-outs for home purchases to the extent we see that trend continue into 2021?

Thomas L. Grimes
Executive VP & COO

Yes. So I think we are -- I think our sort of demographics and their choices were not a high level of married couple with 1 kid, [adding 2] 'got to get out of here' kind of thing. It really is a demographic that seems to be resistant to that and is valuing the service that we provide. That said, Austin, if you go back and look at the crazy days of 2004, 2005, 2006, when anyone could get a home loan and everybody thought actually owning a home was a good investment, that was a long time ago, we had a higher level of move-outs, but our rent growth was really the highest that we had seen in the cycle and in our history. So when the homebuilding business is booming, the economy is booming, and that's why we're in the Sunbelt. And while we've located here, we want to be where job growth is and the economy is growing. And so if that business continues to get stronger, that helps us.

H. Eric Bolton
Chairman, President & CEO

And I would add, Austin, that -- I would add that if you look on Page 9, I mean, we do show kind of the trends that we've seen relating to overall turnover, and turnover associated specifically with home buying and home renting. But what's important to recognize is that home-renting has never really been a challenge for us, people leaving us to go rent a home, if you will. And it's been consistent for 20-plus years in that kind of 6% range of our total move-out. It just really hasn't changed our dynamics at all.

What has come down clearly is people leaving us to go buy a home, and that's at an all-time low. And I think a lot of it has to do with how our demographics -- as Tom mentioned, how our demographic has changed. But what's important to recognize as you just think about the turnover dynamic is that the #1 reason people leave us and move out is because of a change in their job, a change in their employment status. Where move-outs to home-buying constitutes about 20% of our turnover, move-outs to -- associated with a job change is about 30, 30-plus percent of our turnover. And with the economy, where it is right now, that's come down. People just are -- if they have a job, they're holding on to their job. I do think that as a consequence of a recovering economy, if we do see the employment markets show strong recovery and strong growth, we may see that move up a little bit. But again, it's in the midst of a strong economy which should support more robust rent growth.

Austin Todd Wurschmidt
KeyBanc Capital Markets Inc., Research Division

Yes. Do you think -- I mean you guys have been beneficiaries of in-migration into your markets now for some time, but perhaps some of that has accelerated and work-from-home has offered people the ability to move out of coastal markets. As back to office or a more flexible work schedule returns and perhaps coastal cities, we start to see urban markets and infill markets start to see vacancy decrease, is that a risk to your business and to your portfolio at all as you look out?

H. Eric Bolton
Chairman, President & CEO

I don't think so. I think that the whole sort of work-from-home dynamic clearly picked up, obviously, over the course of this last several months. And as that begins to reverse to some degree, I think that it may trigger a few move-outs here and there. But broadly speaking, I think that what I believe is going to happen if work-from-home conditions that existed before COVID ever happened and, of course, we go back to a more normal environment when a vaccine is actually out and in place, I don't think we go all the way back to where we were prior to COVID. I think if 100% is where we were before COVID, maybe we get back to 90% or 80%. I think the flexibility and the capabilities associated with work-from-home are going to be with us to some degree more so than they were before COVID after we get a vaccine.

So I mean I continue to believe that as more and more people realize they can accomplish their jobs and not necessarily have to live in a high-cost area and their employers support their ability to work remotely, which I think more will going forward, I think that, that continues to work in a more positive way with our strategy versus some of the high-cost markets in the country.

Austin Todd Wurschmidt
KeyBanc Capital Markets Inc., Research Division

Yes. That's helpful. You've mentioned demand has been pretty stable across a lot of your markets. At what point do we need to see really an acceleration in job growth for household formation to take hold and really to continue to drive demand for the portfolio?

H. Eric Bolton
Chairman, President & CEO

Well, I mean, I think that, obviously, what's driving our dynamic in terms of our ability to stay -- keep occupancy strong and continue to grow rents is the interplay between demand and supply. And what I'm encouraged by is, I think, by any measurement, when you look at supply levels, new deliveries -- or new supply deliveries in our markets, they've been elevated, if you will, for the last year or so, last couple of years and likely will remain elevated for the next 3 or 4 quarters. But when you think about the fact that in the midst of elevated supply delivery against the backdrop of one of the weakest employment markets that we've ever seen over the last 6 months, we were able to generate results that we did. And I think that says some pretty strong things about our markets.

And then as we, hopefully, do get into a position where the employment markets start to get better -- we lost about 2 million to 2.5 million jobs across our footprint over the past 6 months or so, 7 months, we'll get all those jobs back and then some -- but to get all those jobs back and then some starting, if you will, next year into 2022, against the backdrop of lower and moderating new supply deliveries, which I think will begin to show up really more meaningfully late next year and into 2022, as I said at the beginning, I'm very encouraged by what I believe are trends that set up for some very strong dynamics for our footprint late next year into 2022.

Austin Todd Wurschmidt
KeyBanc Capital Markets Inc., Research Division

Yes. No, that makes sense. And then just I'm going to hit on one more, and we'll hit on one we have in the Q&A portal here. But you touched on supply and that's declining. Is the decrease in supply, do you attribute that to the fallout from COVID-19 and the pandemic? Or were you starting to see supply moderate? And I guess I asked because I'm curious on what your thoughts as to how quickly that re-ramps back up and what sort of the window could look like. So maybe if you have a crystal ball and you look at permitting levels and what that portends as far as new supply maybe into 2022, 2023, just curious about your thoughts there.

H. Eric Bolton
Chairman, President & CEO

Brad, do you want to take that?

A. Bradley Hill
Executive VP & Director of Multifamily Investing

Yes, I'll take that. Austin, I think as we look at the permitting data, certainly, we've seen a significant drop in the number of permits and then also construction starts associated with the March on time period. We've seen specifically a pretty significant drop in the South region, which is predominantly our footprint associated with construction starts. And so certainly, that's been COVID-related. You've got delays associated with municipalities [with proven yields]. You've got some difficulty from developers obtaining construction financing. So I do think a large part of it is COVID-related.

And how long that persists? I don't really know. I do know that I think a developer's ability to obtain construction financing is very challenged right now. And I think that likely continues for some time given that banks still have significant exposure to other sectors which are struggling, and so it's difficult for them to underwrite deals and put money to work. And that's one of the reasons why, I think, our prepurchase platform, where we provide debt capital into deals and partner with folks, developers on those, loses a deal because the construction financing environment is tough right now. So it's hard to say how long that persists. Well, we are certainly seeing a significant drop off since March, which again leads into deliveries that will start occurring late next year and into 2022. But we've not seen any [indiscernible].

Austin Todd Wurschmidt
KeyBanc Capital Markets Inc., Research Division

Thanks. Appreciate that, Brad. And we'll go to our first question here in Q&A because I think it lends to what we were just discussing and maybe how well-capitalized players like yourselves maybe stand to benefit from the improving environment you discussed about and the inability of others to get starts underway. So it seems like you guys outlined a couple of starts potentially later this year into early next year. Could you just give some additional detail on those new development projects, what the economics look like and maybe something around the market detail?

H. Eric Bolton
Chairman, President & CEO

Yes. Sure. I'll jump on that, Brad. We have -- as outlined on Page 15, we've got about just under 2,000 units currently in active development. And we have, at the moment, about another, let's say, 8 or so projects that we're working on in some form of predevelopment. We've got 2 additional new prepurchased opportunities, where essentially, as Brad is alluding to, we're providing the financing and essentially committing to prepurchase the development. And they should get started early next year. I mentioned this before, one in Salt Lake City, which will be a new market for us as well as another one in Phoenix.

We've got an own land site in Austin that will probably get started on late this year, early next year. In addition to that, we just closed on -- or about to close on another land purchase in Denver. We've got [another site] in Denver already that we own, probably start one of those Denver projects next year. We'll start the Austin project this year or early next year. Then we also have another site in Tampa that we are closing in on, that would probably be an early '22 start as well as another site in Raleigh that we're working that will probably be an early '22 start. So over the course of the next year to 1.5 years, you will likely see this pipeline that we have today. Of course, some of the ones that are in the current pipeline will start to lease up. But you'll probably see that list double over the next 1.5 years or so.

Austin Todd Wurschmidt
KeyBanc Capital Markets Inc., Research Division

So meaning, it would be helpful...

H. Eric Bolton
Chairman, President & CEO

Go ahead.

Austin Todd Wurschmidt
KeyBanc Capital Markets Inc., Research Division

Please go ahead.

H. Eric Bolton
Chairman, President & CEO

Well, I was just going to say and, of course, what we're excited about is that that's going to deliver in 2022, 2023 when I think conditions are going to be particularly strong.

Austin Todd Wurschmidt
KeyBanc Capital Markets Inc., Research Division

Yes. That makes a lot of sense. It would be helpful if you could just frame up the size with which you're comfortable growing the development pipeline too from a funding perspective. And how large could we see that development pipeline get in terms of dollar volume?

H. Eric Bolton
Chairman, President & CEO

Al, do you want to take that?

Albert M. Campbell
Executive VP & CFO

Yes, absolutely, Austin. That's -- as we talked about over the last several quarters, really, we feel very good about where our balance sheet is. We have plenty of capacity, and really, we're starting with the A- rating where we are today. But I think as we've talked about and because of some of the things that Brad talked about and Eric talked about, we're at a point where we'll likely use some of that capacity over the next few quarters to fund a few of these deals. We have a $1 billion credit facility fully unborrowed potentially. We have minimal maturities next year, debt maturities less than $200 million. And so I think that, that puts us in a very good position to do that.

So we would never put ourselves in a position of significant risk with our pipeline, but you will see likely us move that up a little bit over the next several quarters as we start these deals. And as we think about it, we've talked about before, we're winning by significant risk. We will not get above [4% to 5%] of our balance sheet and committed capital, but that's a pretty significant number. I mean if you look at the size of our balance sheet today, you're talking $750 million to $850 million range, something like that. So we definitely have plenty of room to grow that pipeline and not put ourselves in any undue risk.

Austin Todd Wurschmidt
KeyBanc Capital Markets Inc., Research Division

That's helpful. It kind of then leaves -- what kind of capacity does that leave for acquisition opportunities? You mentioned, I think, early on in your prepared remarks that there's been strong private equity interest. So just curious, a little overview on the transaction market. How active are you seeing private equity today? And maybe touch on cap rates and how those have trended versus pre-COVID levels?

H. Eric Bolton
Chairman, President & CEO

Brad, do you want to take that?

A. Bradley Hill
Executive VP & Director of Multifamily Investing

Austin, this is Brad. I think we have seen over the last few quarters that transaction volume, obviously, dropped off after COVID. It has come back to some degree, although the level right now is certainly down from last year. So the private capital has come back pretty strongly. I would say your private REITs are very active in the market. Since there's not as many deals coming to market, the demand for those deals is elevated. So what that's done is really pushed down cap rates on deals [indiscernible]. Certainly, low interest rates have helped that. It's hard to say the exact basis points drop in cap rates that we've seen, but it's going to depend on the economics of the deal.

But I would say, generally, pricing is flat today versus pre-COVID, and then your fundamentals have been impacted to some degree. So that's probably a 25-plus basis point drop in cap rate. And for that reason, I think it's going to be difficult for us to put capital out in that manner and hence leads us more toward the development platform where we think the returns are better for us. And so I don't know that I see the acquisition market changing anytime soon. We certainly thought that we would start seeing some opportunities in the lease-up environment, but those have not materialized yet. There haven't been a lot of those that have come to market. So we'll see. We'll continue to be plugged in, in that area. But we certainly expect our acquisition volume to be down.

Austin Todd Wurschmidt
KeyBanc Capital Markets Inc., Research Division

Eric, you touched on, and I think Brad hit on it as well, Salt Lake City being a new market for you. And if I recall a few years ago at an Investor Day, you had referenced the number of markets you're in, we can see you exit some of your smaller markets. And I guess as you sit here today and look across the portfolio, what is sort of the new market opportunity versus maybe markets that have run their course and don't have the same outlook that maybe once did? Where are you in terms of sort of portfolio management and the opportunities that exist today?

H. Eric Bolton
Chairman, President & CEO

Well, I mean we like broadly the footprint that we're in. We don't really plan to other than adding Salt Lake City as the only new market that we've been targeting for a while. And we've finally managed to find a way to get in there on the basis that makes sense. You'll see us continue to harvest capital out of some of the more smaller tertiary markets. Most of those have been sold down. We have a few left that will probably continue to cycle out of over the next couple of years or so.

But for us, really, the -- we like the footprint. We like the mid-tier and larger markets. You're going to see us continue to stay balanced in both large markets, [emerging] markets, markets like Phoenix and Atlanta and Dallas, Charlotte. We like all the larger markets. But we also like some of these more secondary markets, if you will, if we think they are going to have some great growth dynamics, Jacksonville, Florida, Nashville, Greenville, South Carolina, Charleston. These markets continue to have a lot of appeal, a lot of great growth dynamics. And so we remain committed to this diversification in both large and mid-tier markets across the region. But broadly speaking, not a whole lot of change to really -- no change to the overall footprint.

Austin Todd Wurschmidt
KeyBanc Capital Markets Inc., Research Division

Right. And I think that actually brings us to the end here. I want to thank you guys for the time here. I hope we were able to hit on all the questions and topics of interest today. And yes, thank you again. And if you have any closing remarks, please feel free.

H. Eric Bolton
Chairman, President & CEO

Well, thanks, Austin, for hosting us today. And if anyone on the call has any follow-up questions or anything, feel free to reach out at any time. So thank you, Austin.

Austin Todd Wurschmidt
KeyBanc Capital Markets Inc., Research Division

Great. Thank you.

A. Bradley Hill
Executive VP & Director of Multifamily Investing

Thanks, Austin.

Thomas L. Grimes
Executive VP & COO

Thank you.

Austin Todd Wurschmidt
KeyBanc Capital Markets Inc., Research Division
Thank you.