

MID AMERICA APARTMENT COMMUNITIES INC
Form 10-Q
November 07, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

✓ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2013
or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 001-12762

MID-AMERICA APARTMENT COMMUNITIES, INC.

(Exact name of registrant as specified in its charter)

TENNESSEE

62-1543819

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer Identification No.)

6584 POPLAR AVENUE

MEMPHIS, TENNESSEE

38138

(Address of principal executive offices)

(Zip Code)

(901) 682-6600

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting

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company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

Class	Number of Shares Outstanding at November 4, 2013
Common Stock, \$0.01 par value	74,776,229

MID-AMERICA APARTMENT COMMUNITIES, INC. (MAA)

TABLE OF CONTENTS

	Page
PART I – FINANCIAL INFORMATION	
Item 1. Financial Statements.	
Condensed Consolidated Balance Sheets as of September 30, 2013 (Unaudited) and December 31, 2012 (Unaudited).	2
Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2013 (Unaudited) and 2012 (Unaudited).	3
Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2013 (Unaudited) and 2012 (Unaudited).	4
Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2013 (Unaudited) and 2012 (Unaudited).	5
Notes to Condensed Consolidated Financial Statements (Unaudited).	6
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.	25
Item 3. Quantitative and Qualitative Disclosures About Market Risk.	37
Item 4. Controls and Procedures.	37
PART II – OTHER INFORMATION	
Item 1. Legal Proceedings.	38
Item 1A. Risk Factors.	38
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.	49
Item 3. Defaults Upon Senior Securities.	49
Item 4. Mine Safety Disclosures.	49
Item 5. Other Information.	49
Item 6. Exhibits.	50
Signatures.	51

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Condensed Consolidated Balance Sheets
September 30, 2013 and December 31, 2012

(Unaudited)

(Dollars in thousands, except share data)

	September 30, 2013	December 31, 2012
Assets:		
Real estate assets:		
Land	\$394,848	\$386,670
Buildings and improvements	3,247,874	3,170,413
Furniture, fixtures and equipment	102,013	98,044
Development and capital improvements in progress	31,595	52,455
	3,776,330	3,707,582
Less accumulated depreciation	(1,068,873)	(1,027,618)
	2,707,457	2,679,964
Land held for future development	5,450	1,205
Commercial properties, net	7,664	8,065
Investments in real estate joint ventures	3,237	4,837
Real estate assets, net	2,723,808	2,694,071
Cash and cash equivalents	181,105	9,075
Restricted cash	58,579	808
Deferred financing costs, net	13,629	13,842
Other assets	47,030	29,166
Goodwill	4,106	4,106
Total assets	\$3,028,257	\$2,751,068
Liabilities and Shareholders' Equity:		
Liabilities:		
Secured notes payable	\$1,050,202	\$1,190,848
Unsecured notes payable	810,000	483,000
Accounts payable	6,963	4,586
Fair market value of interest rate swaps	9,858	21,423
Accrued expenses and other liabilities	109,282	94,719
Security deposits	6,892	6,669
Total liabilities	1,993,197	1,801,245
Redeemable stock	5,039	4,713
Shareholders' equity:		
Common stock, \$0.01 par value per share, 100,000,000 shares authorized; 42,744,978 and 42,316,398 shares issued and outstanding at September 30, 2013 and December 31, 2012, respectively ⁽¹⁾	427	422
Additional paid-in capital	1,562,211	1,542,999
Accumulated distributions in excess of net income	(567,662)	(603,315)
Accumulated other comprehensive losses	(4,599)	(26,054)
Total MAA shareholders' equity	990,377	914,052

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Noncontrolling interest	39,644	31,058
Total equity	1,030,021	945,110
Total liabilities and equity	\$3,028,257	\$2,751,068

Number of shares issued and outstanding represent total shares of common stock regardless of classification on the (1) consolidated balance sheet. The number of shares classified as redeemable stock on the consolidated balance sheet for September 30, 2013 and December 31, 2012 are 80,626 and 72,786, respectively.

See accompanying notes to condensed consolidated financial statements.

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Condensed Consolidated Statements of Operations

Three and nine months ended September 30, 2013 and 2012

(Unaudited)

(Dollars in thousands, except per share data)

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Operating revenues:				
Rental revenues	\$125,522	\$113,015	\$366,191	\$323,223
Other property revenues	10,772	9,966	31,596	29,084
Total property revenues	136,294	122,981	397,787	352,307
Management fee income	146	209	465	687
Total operating revenues	136,440	123,190	398,252	352,994
Property operating expenses:				
Personnel	15,085	14,156	43,791	40,966
Building repairs and maintenance	4,595	4,292	11,661	11,543
Real estate taxes and insurance	16,811	14,167	48,395	41,085
Utilities	7,580	7,381	21,108	19,678
Landscaping	2,922	2,640	8,677	7,864
Other operating	9,160	8,653	26,758	24,928
Depreciation and amortization	33,000	30,979	97,883	89,701
Total property operating expenses	89,153	82,268	258,273	235,765
Acquisition expense	—	1,343	499	1,574
Property management expenses	5,193	5,460	15,970	16,484
General and administrative expenses	3,976	3,527	10,604	10,436
Merger related expenses	5,561	—	11,298	—
Integration related expenses	35	—	35	—
Income from continuing operations before non-operating items	32,522	30,592	101,573	88,735
Interest and other non-property income	16	89	86	343
Interest expense	(14,941)	(14,530)	(45,715)	(42,428)
(Loss) gain on debt extinguishment/modification	(218)	—	(387)	5
Amortization of deferred financing costs	(820)	(971)	(2,427)	(2,611)
Net casualty (loss) gain after insurance and other settlement proceeds	—	(22)	455	(24)
Gain on sale of non-depreciable assets	—	48	—	45
Income from continuing operations before gain (loss) from real estate joint ventures	16,559	15,206	53,585	44,065
Gain (loss) from real estate joint ventures	60	(72)	161	(170)
Income from continuing operations	16,619	15,134	53,746	43,895
Discontinued operations:				
Income from discontinued operations before gain on sale	650	753	3,439	4,206
Net casualty (loss) gain after insurance and other settlement proceeds on discontinued operations	(1)	99	(5)	43
Gain on sale of discontinued operations	28,788	16,092	71,909	38,474
Consolidated net income	46,056	32,078	129,089	86,618
Net income attributable to noncontrolling interests	1,772	1,212	4,536	3,702
Net income available for MAA common shareholders	\$44,284	\$30,866	\$124,553	\$82,916

Earnings per common share - basic:

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Income from continuing operations available for common shareholders	\$0.38	\$0.35	\$1.22	\$1.03
Discontinued property operations	0.66	0.39	1.70	1.01
Net income available for common shareholders	\$1.04	\$0.74	\$2.92	\$2.04
Earnings per share - diluted:				
Income from continuing operations available for common shareholders	\$0.38	\$0.35	\$1.21	\$1.03
Discontinued property operations	0.66	0.39	1.70	1.00
Net income available for common shareholders	\$1.04	\$0.74	\$2.91	\$2.03
Dividends declared per common share	\$0.6950	\$0.6600	\$2.0850	\$1.9800
See accompanying notes to condensed consolidated financial statements.				

3

MAA

Condensed Consolidated Statements of Comprehensive Income

Three and nine months ended September 30, 2013 and 2012

(Unaudited)

(Dollars in thousands)

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Consolidated net income	\$46,056	\$32,078	\$129,089	\$86,618
Other comprehensive income:				
Unrealized (losses) gains from the effective portion of derivative instruments	(1,826)	(2,903)	10,096	(8,197)
Reclassification adjustment for losses included in net income for the effective portion of derivative instruments	3,621	4,815	12,098	15,308
Total comprehensive income	47,851	33,990	151,283	93,729
Less: comprehensive income attributable to noncontrolling interests	(1,830)	(2,700)	(5,275)	(5,432)
Comprehensive income attributable to MAA	\$46,021	\$31,290	\$146,008	\$88,297

See accompanying notes to condensed consolidated financial statements.

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Condensed Consolidated Statements of Cash Flows

Nine months ended September 30, 2013 and 2012

(Unaudited)

(Dollars in thousands)

	Nine months ended September 30,	
	2013	2012
Cash flows from operating activities:		
Consolidated net income	\$ 129,089	\$ 86,618
Adjustments to reconcile net income to net cash provided by operating activities:		
Retail revenue accretion	(29)	—
Depreciation and amortization	102,158	97,691
Stock compensation expense	1,729	1,730
Redeemable stock issued	535	428
Amortization of debt premium	(948)	(541)
(Gain) loss from investments in real estate joint ventures	(161)	170
Loss on debt extinguishment	387	322
Derivative interest expense	827	590
Gain on sale of non-depreciable assets	—	(45)
Gain on sale of discontinued operations	(71,909)	(38,474)
Net casualty gain and other settlement proceeds	(450)	(19)
Changes in assets and liabilities:		
Restricted cash	(391)	63
Other assets	(7,611)	(4,569)
Accounts payable	2,377	3,572
Accrued expenses and other	12,951	10,040
Security deposits	223	445
Net cash provided by operating activities	168,777	158,021
Cash flows from investing activities:		
Purchases of real estate and other assets	(89,866)	(314,909)
Normal capital improvements	(35,412)	(36,989)
Construction capital and other improvements	(3,873)	(2,561)
Renovations to existing real estate assets	(8,616)	(11,070)
Development	(26,129)	(54,242)
Distributions from real estate joint ventures	8,311	11,880
Contributions to real estate joint ventures	(183)	(204)
Proceeds from disposition of real estate assets	118,783	97,113
Funding of escrow for exchange acquisitions	(57,380)	—
Net cash used in investing activities	(94,365)	(310,982)
Cash flows from financing activities:		
Net change in credit lines	177,000	(235,064)
Proceeds from notes payable	—	271,000
Principal payments on notes payable	(8,695)	(11,760)
Payment of deferred financing costs	(2,655)	(3,577)
Repurchase of common stock	(682)	(1,863)
Proceeds from issuances of common shares	25,038	173,960
Distributions to noncontrolling interests	(3,574)	(3,775)
Dividends paid on common shares	(88,814)	(79,855)

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Net cash provided by financing activities	97,618	109,066
Net increase (decrease) in cash and cash equivalents	172,030	(43,895)
Cash and cash equivalents, beginning of period	9,075	57,317
Cash and cash equivalents, end of period	\$181,105	\$13,422
Supplemental disclosure of cash flow information:		
Interest paid	\$48,534	\$47,735
Supplemental disclosure of noncash investing and financing activities:		
Conversion of units to shares of common stock	\$550	\$2,672
Accrued construction in progress	\$4,190	\$6,392
Interest capitalized	\$1,118	\$1,844
Marked-to-market adjustment on derivative instruments	\$21,367	\$6,521
Fair value adjustment on debt assumed	\$704	\$2,578
Debt assumed	\$18,293	\$30,290
See accompanying notes to condensed consolidated financial statements.		

MAA

Notes to Condensed Consolidated Financial Statements

September 30, 2013 and 2012

(Unaudited)

1. Consolidation and Basis of Presentation and Significant Accounting Policies

Consolidation and Basis of Presentation

Mid-America Apartment Communities, Inc., or we, our, us, or MAA, is a self-administered real estate investment trust, or REIT, that owns, acquires, renovates, develops and manages apartment communities in the Sunbelt region of the United States. As of September 30, 2013, we owned or owned interests in a total of 160 multifamily apartment communities comprising 48,343 apartments located in 13 states including four communities comprising 1,156 apartments owned through our joint venture, Mid-America Multifamily Fund II, LLC. We also had two development communities under construction totaling 564 units as of September 30, 2013. A total of 174 units for the development projects were completed as of September 30, 2013, and therefore have been included in the totals above. Total expected costs for the development projects are \$74.0 million, of which \$43.1 million has been incurred through September 30, 2013. We expect to complete construction on one of the projects by the fourth quarter of 2013 and the other by the fourth quarter of 2014. Four of our properties include retail components with approximately 107,000 square feet of gross leasable area.

Effective October 1, 2013, pursuant to the Agreement and Plan of Merger, dated as of June 3, 2013, an indirect, wholly-owned subsidiary of Mid-America Apartments, L.P., or the Operating Partnership, or MAALP, merged with and into Colonial Realty Limited Partnership, or Colonial LP, a Delaware limited partnership, with Colonial LP surviving the merger, which is referred to as the partnership merger. Immediately following the partnership merger, Colonial Properties Trust, or Colonial, an Alabama real estate investment trust, merged with and into MAA, with MAA surviving the merger, which is referred to as the parent merger. The partnership merger and parent merger are collectively referred to as the "Merger" in the Quarterly Report on Form 10-Q. The combined company will operate under the name "MAA" and will be run by our existing management team. For additional details, see Item 1. Financial Statements – Notes to Consolidated Financial Statements, Note 11. All other footnotes contained in this Form 10-Q have been prepared as of September 30, 2013.

The accompanying unaudited condensed consolidated financial statements have been prepared by our management in accordance with United States generally accepted accounting principles, or GAAP, for interim financial information and applicable rules and regulations of the Securities and Exchange Commission, or the SEC, and our accounting policies as set forth in our December 31, 2012 annual consolidated financial statements. The consolidated financial statements presented herein include the accounts of MAA, the Operating Partnership and all other subsidiaries in which MAA has a controlling financial interest. MAA owns approximately 96% to 100% of all consolidated subsidiaries. In our opinion, all adjustments necessary for a fair presentation of the condensed consolidated financial statements have been included, and all such adjustments were of a normal recurring nature. All significant intercompany accounts and transactions have been eliminated in consolidation. The results of operations for the three- and nine-month periods ended September 30, 2013 are not necessarily indicative of the results to be expected for the full year. These financial statements should be read in conjunction with our audited financial statements and notes thereto included in our Annual Report on Form 10-K filed with the SEC on February 22, 2013. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the dates of the financial statements and the amounts of revenues and expenses during the reporting periods. Actual amounts realized or paid could differ from those estimates.

MAA invests in entities which may qualify as variable interest entities, or VIE. A VIE is a legal entity in which the equity investors lack sufficient equity at risk for the entity to finance its activities without additional subordinated financial support or, as a group, the holders of the equity investment at risk lack the power to direct the activities of a legal entity as well as the obligation to absorb its expected losses or the right to receive its expected residual returns. MAA consolidates all VIEs for which it is the primary beneficiary and uses the equity method to account for investments that qualify as VIEs but for which we are not the primary beneficiary. In determining whether we are the primary beneficiary of a VIE, we consider qualitative and quantitative factors, including but not limited to, those activities that most significantly impact the VIE's economic performance and which party controls such activities.

MAA uses the equity method of accounting for its investments in entities for which we exercise significant influence, but do not have the ability to exercise control. These entities are not variable interest entities. The factors considered in determining

that MAA does not have the ability to exercise control include ownership of voting interests and participatory rights of investors.

Earnings per Common Share

Basic earnings per share is computed by dividing net income attributable to common shareholders by the weighted average number of shares outstanding during the period. All outstanding unvested restricted share awards contain rights to non-forfeitable dividends and participate in undistributed earnings with common shareholders and, accordingly, are considered participating securities that are included in the two-class method of computing basic earnings per share. Both the unvested restricted shares and other potentially dilutive common shares, and the related impact to earnings, are considered when calculating earnings per share on a diluted basis with our diluted earnings per share being the more dilutive of the treasury stock or two-class methods. Operating partnership units are included in dilutive earnings per share calculations when they are dilutive to earnings per share. For the three- and nine-month periods ended September 30, 2013 and 2012, our basic earnings per share is computed using the two-class method, and our diluted earnings per share is computed using the more dilutive of the treasury stock method or two-class method:

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(dollars and shares in thousands, except per share amounts)	Three months ended		Nine months ended	
	September 30, 2013	2012	September 30, 2013	2012
Shares Outstanding				
Weighted average common shares - basic	42,702	41,405	42,584	40,634
Weighted average partnership units outstanding	—	(1) 1,781	1,709	1,859
Effect of unvested shares assumed	—	(1) 35	53	74
Weighted average common shares - diluted	42,702	43,221	44,346	42,567
Calculation of Earnings per Share - basic				
Income from continuing operations	\$16,619	\$15,134	\$53,746	\$43,895
Income from continuing operations attributable to noncontrolling interests	(645)	(466)	(1,535)	(1,731)
Income from continuing operations allocated to unvested restricted shares	(14)	(12)	(47)	(39)
Income from continuing operations available for common shareholders, adjusted	\$15,960	\$14,656	\$52,164	\$42,125
Income from discontinued operations	\$29,437	\$16,944	\$75,343	\$42,723
Income from discontinued operations attributable to noncontrolling interest	(1,127)	(746)	(3,001)	(1,971)
Income from discontinued operations allocated to unvested restricted shares	(24)	(13)	(66)	(38)
Income from discontinued operations available for common shareholders, adjusted	\$28,286	\$16,185	\$72,276	\$40,714
Weighted average common shares - basic	42,702	41,405	42,584	40,634
Earnings per share - basic	\$1.04	\$0.74	\$2.92	\$2.04
Calculation of Earnings per Share - diluted				
Income from continuing operations	\$16,619	\$15,134	\$53,746	\$43,895
Income from continuing operations attributable to noncontrolling interests	(645)	(1)	—	—
Income from continuing operations allocated to unvested restricted shares	(14)	(1)	—	—
Income from continuing operations available for common shareholders, adjusted	\$15,960	\$15,134	\$53,746	\$43,895
Income from discontinued operations	\$29,437	\$16,944	\$75,343	\$42,723
Income from discontinued operations attributable to noncontrolling interest	(1,127)	(1)	—	—
Income from discontinued operations allocated to unvested restricted shares	(23)	(1)	—	—
Income from discontinued operations available for common shareholders, adjusted	\$28,287	\$16,944	\$75,343	\$42,723
Weighted average common shares - diluted	42,702	43,221	44,346	42,567
Earnings per share - diluted	\$1.04	\$0.74	\$2.91	\$2.03

(1) Operating partnership units, unvested shares assumed, and the related income with each are not included in dilutive earnings per share calculations as they were not dilutive.

8

2. Segment Information

As of September 30, 2013, we owned or had an ownership interest in 160 multifamily apartment communities in 13 different states from which we derived all significant sources of earnings and operating cash flows. Senior management evaluates performance and determines resource allocations by reviewing apartment communities individually and in the following reportable operating segments:

• Large market same store communities are generally communities:

in markets with a population of at least one million and at least 1% of the total public multifamily REIT units; and that we have owned and have been stabilized for at least a full 12 months and have not been classified as held for sale.

• Secondary market same store communities are generally communities:

in markets with populations of more than one million but less than 1% of the total public multifamily REIT units or in markets with a population of less than one million; and

that we have owned and have been stabilized for at least a full 12 months and have not been classified as held for sale.

Non same store communities and other includes recent acquisitions, communities in development or lease-up and

• communities that have been identified for disposition. Also included in non same store communities are non multifamily activities, which represent less than 1% of our portfolio.

On the first day of each calendar year, we determine the composition of our same store operating segments for that year as well as adjusting the previous year, which allows us to evaluate full period-over-period operating comparisons. Properties in development or lease-up will be added to the same store portfolio on the first day of the calendar year after they have been owned and stabilized for at least a full 12 months. Communities are considered stabilized after achieving 90% occupancy for 90 days. Communities that have been identified for disposition are excluded from our same store portfolio. We utilize net operating income, or NOI, in evaluating the performance of the segments. Total NOI represents total property revenues less total property operating expenses, excluding depreciation and amortization, for all properties held during the period regardless of their status as held for sale. We believe NOI is a helpful tool in evaluating the operating performance of our segments because it measures the core operations of property performance by excluding corporate level expenses and other items not related to property operating performance.

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Revenues and NOI for each reportable segment for the three- and nine-month periods ended September 30, 2013 and 2012 were as follows (dollars in thousands):

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2013	2012	2013	2012
Revenues				
Large Market Same Store	\$64,823	\$61,707	\$191,246	\$181,446
Secondary Market Same Store	52,344	50,904	155,650	150,869
Non-Same Store and Other	19,127	10,370	50,891	19,992
Total property revenues	136,294	122,981	397,787	352,307
Management fee income	146	209	465	687
Total operating revenues	\$136,440	\$123,190	\$398,252	\$352,994
NOI				
Large Market Same Store	\$38,159	\$35,700	\$113,707	\$105,675
Secondary Market Same Store	30,349	29,816	92,547	89,109
Non-Same Store and Other	12,470	9,015	36,798	22,657
Total NOI	80,978	74,531	243,052	217,441
Discontinued operations NOI included above	(837)	(2,839)	(5,655)	(11,198)
Management fee income	146	209	465	687
Depreciation and amortization	(33,000)	(30,979)	(97,883)	(89,701)
Acquisition expense	—	(1,343)	(499)	(1,574)
Property management expense	(5,193)	(5,460)		