

**Mid-America Apartment Communities, Inc. (NYSE: MAA)**  
**3<sup>rd</sup> Quarter 2004 Earnings Release Conference Call**  
**November 5, 2004**

**Leslie Wolfgang:**

Thanks, Matt. 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 and Tom Grimes, Director of Property Management.

Before turning the call over to Eric, I want to remind you 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. We will post a copy of our prepared comments, as well as an audio copy of this morning's call on our web site. Further details surrounding Mid-America's third quarter results may be obtained from the 8-K that was filed with the SEC yesterday. You may also obtain a copy of our press release on our web site.

I'll now turn the call over to Eric.

**Eric Bolton:**

Thanks Leslie. Good morning everyone. Thanks for participating in our third quarter call. I'm going to open our comments this morning with an overview on the quarter's performance as well as an update on our business plan. Tom will discuss property management operations, Al will discuss the balance sheet and financing and Simon will discuss the quarter's financial results in more detail and also review our forecast.

Third quarter results were highlighted by a very successful push to strengthen occupancy prior to the slower winter leasing season. The third quarter end same store occupancy of 95.1% is the highest occupancy performance we've posted since the first quarter of 2001. Stated another way, same store occupancy is at a 3-year high. I continue to believe that market conditions are set to meaningfully improve as a strengthening job market gains traction. I'm optimistic that we will capture improved pricing performance over the next 2 to 3 quarters.

As we've discussed in the past, when pricing must factor into the competitive mix for leasing, we use front-end loaded concessions as the pricing tool to compete for occupancy. We use concessions, instead of aggressive rent reductions, as we believe that across the board rent reductions will ultimately lead to a shift in resident profile, weaker long-term NOI performance and a loss of value in the real estate. And above all, we are intent on protecting shareholder value and the long-term earnings potential of our properties. As market conditions continue to strengthen, and as a result of the stronger occupancy performance we captured in the third quarter, we expect to see concession

levels fall-off in the fourth quarter and into 2005. From there, because we have protected our leasing standards, rent structure and property profiles, we are well positioned to capture higher long-term revenue performance through steady rent growth.

In addition to the terrific results that our property management team accomplished with occupancy during the quarter, I'm pleased with the improved productivity in operating expenses. Same store operating expenses in the third quarter, excluding the non-routine FL hurricane related expenses, were up only .4% as compared to prior year. Given the fact that on a same store basis we turned 400 more apartments in the third quarter of this year as compared to last year, this is indeed very strong performance in controlling operating expenses.

As both our level of FFO and AFFO continue to grow, the balance sheet is further strengthened. As Al will recap for you, our fixed charge coverage and debt service coverage improved again this quarter.

Our focus over the last couple of years in allocating more capital to our large market tier group continues to make progress. Once we've completed the closing of our latest three acquisitions, we'll have increased our portfolio capital allocation to large tier markets from 17% just two years ago to 26% today. As we've discussed in the past, our strategy centers on a portfolio allocation and an operating approach designed to deliver a stable and predictable earnings flow for dividend coverage and steady value growth through the full phase of economic and market cycles. Therefore, we intend to continue a practice of allocating capital across all three market segments in the southeast region of the country. As leasing conditions improve, we believe our portfolio will continue to deliver strong performance and solid earnings growth as compared to the apartment sector.

By maintaining the full earnings potential of our properties over the last couple of years, coupled with new initiatives underway to increase our earnings potential including a more aggressive unit interior renovation program as well as completing the roll-out of our new property and revenue management system, we believe there is significant earnings upside to capture within the portfolio. It's important to remember that our same store portfolio generated 20 cents per share of higher NOI just a couple of years ago during more normalized market conditions. While our portfolio strategy and presence in secondary markets has clearly generated a stronger performance relative to the apartment sector during the weak phase of the market cycle, given the shift in portfolio allocation that we've accomplished to date, along with a stronger operating platform we've installed over the past year, all three market segments of our portfolio offer solid upside opportunity as the job market and economy continues to improve. We fully expect to soon re-capture historical performance levels, and then move beyond those benchmarks.

I'll now turn the call over to Tom.

**Tom:**

Improving physical occupancy drove revenues for the quarter up by 1.7% over the prior year. Physical occupancy was 43 basis points higher than the prior year and 179 bps higher than the prior sequential quarter. We feel this is important because it gives us a strong occupancy base headed into the winter months when demand tends to dampen.

Concessions on a per move-in basis trended down from \$397 per move-in during the prior sequential quarter to \$369 per move-in during this quarter but are still trending higher than the prior year.

The positive occupancy trend has held through October which closed at 94% up approximately 24 bps from the prior year. This combined with Average Rent per Unit growth of 40 bps is encouraging.

Our marketing processes continue to drive improvement. We generated 12% more traffic and 15.2% more leases in the third quarter of 2004 than in the prior year and the closing ratio increased 142 bps to a solid 44%.

This sound sales effort was offset by an increase in turnover on a year to year basis which generated an additional 400 units to lease during the quarter. The turn change has been driven by increases in job transfers and military move-outs. Our 12 month same store turn rate was 71.1% which includes on-site transfers.

Collections remain an area of opportunity for 2005. Collections weakened on a year to year basis as net delinquency increased by 23 bps. We expect collection performance to continue to be under pressure until the job market gains more momentum. Our resident selection hurdles remain high; we rejected 26.4% of our applicants in the third quarter of 2004 vs. 21.8% in the prior year. The increase in rejections is the equivalent of an additional 123 bps of occupancy.

Our inventory management and lease expiration management processes continue to aid revenue and expense performance. The average days a unit sits vacant decreased by 12.5% from the quarter a year ago dropping from 18.4 to 16.1 days vacant. Looking forward, we have just 15% of our leases set to expire in the fourth quarter

Despite the higher turnover rate, and \$0.02 cents per share of hurricane damage, expenses at the property level (which excludes taxes and insurance) remain under control. Property level expenses were up just 1.2% with improvements in repair and maintenance and marketing expenses. Our unit turn program has becoming more efficient. This pushed the average maintenance cost to turn a unit, (which includes Repair and Maintenance, Labor and Carpet) down 10% in the third quarter from \$634 per turn to \$572 per turn. Our total sales cost per lease decreased by 20%.

You will note that new to this Quarterly Release we have added detailed market information in supplemental data schedules that relates to our large, medium, and small tier markets. This information can be found on our web site at [www.maac.net](http://www.maac.net).

A few quick highlights.

Looking at our performance from a market perspective all three, Large, Medium and Small tier groups showed positive NOI growth and NOI for the Same Store group was up 150 basis points.

Our large markets as a group posted 1.1% NOI growth. In Dallas our concession level remains high (just under 1 month free per move-in) as physical occupancy has remained under pressure. We expect our Dallas performance to improve on a year to year basis in 2005. Houston weakened on a year to year basis and shows some signs of economic recovery but not enough to offset the increase in completions. Physical occupancy was 92.6% but concession levels have run high.

Atlanta is showing signs of recovery; occupancy is up 397 bps which drove NOI up 7.6% over the prior year. The concession per move-in for Atlanta also improved; dropping by 13% from the prior sequential quarter and by 27% vs. the prior year.

Austin remains the toughest market in our mid tier group as concession and occupancy slid on a year to year basis. Concession per move-in is now just over 1 month's rent. We were pleased that October physical occupancy was 92% up 150 bps from the end of the third quarter.

Greenville and Nashville led our medium markets group which as a unit posted a .5% NOI increase. Improving occupancy and concession levels drove a 25.5% NOI increase in Greenville and an 11.9% increase in Nashville. We expect both markets to remain stable heading into 2005.

Finally in our small market group, you will notice Columbus is running at 113.5% turn rate and thus incurring a high rate of turn related expenses. Their cost per turn and average days vacant are both significantly below the already strong company average. This high turn rate has had a negative effect on our overall rolling turnover and is due to the close proximity to Ft. Benning, which this year, has been rotating troops on a frequent basis.

Lexington is showing the most improvement of the small market group. This market increased occupancy by 415 bps, had ARU growth of 1.3% and improvement in building repair and maintenance which drove NOI up 15.7%.

**AI:**

Our financing plans remain on track for the year, as we completed several important transactions during the 3<sup>rd</sup> quarter. We refinanced the remaining \$27 million of the \$80

million in debt assumed with the purchase of the Blackstone joint venture properties late last year, using additional borrowings on our Fannie Mae credit facility. Completing this portion brings the total interest savings from this refinancing to about 1 ½ million dollars annually (or 6 ½ cents per share), which was an important part of our financing plan for the current year. We also used an additional \$31 million of our new credit facility with Freddie Mac to fund the acquisitions of Watermark and Prescott during the quarter, bringing our borrowings to \$65 million of the \$100 million commitment.

Also, during the quarter we entered agreements to swap the variable interest rate to a fixed rate on a total of \$126 million of our borrowings under our credit facilities, \$25 million of which will not become effective until the fourth quarter. The average rate for these swaps is 5.3% with an average maturity of just over seven years. As a result of these transactions, at the end of the quarter 80% of our debt was fixed, swapped, or forward-swapped, while an additional 2% was capped.

Our current plans are to continue using interest rate swaps to manage the rate exposure of our variable rate borrowings under our credit facilities. As you will see on our supplemental data schedule, our fixed rate maturities are well laddered through 2011, very near our target of having approximately 10% of our debt maturing each year.

Our financing plans for the remainder of this year include an additional \$68 million in debt re-financings, comprised of the pay-off of \$20 million in tax-free bonds and a \$48 million conventional mortgage, using additional borrowing under our Fannie Mae credit facility. The combined interest savings from these transactions is expected to be 5 cents per share on an annual basis. As discussed in our previous releases, the tax-free bond transactions are expected to generate net gains of approximately 4 cents per share during the fourth quarter. Our Fannie Mae and Freddie Mac credit facilities offer us an excellent combination of attractive interest rates and flexibility, and we expect to continue using them as our preferred borrowing platform in 2005.

Our balance sheet remains strong and increasingly flexible. FFO and AFFO grew during the quarter, adding flexibility, while coverage of our financing costs continues to show improvement over the prior year. Our fixed charge coverage improved to 2.51 times compared to 2.43 for the same quarter a year ago, while our debt service coverage improved to 2.49 times compared to 2.37 one year ago.

Our blended average borrowing cost rose slightly from the historically low 4.8% at the end of June to a still very low 5.2% at the end of September. This increase is due both to the recent increase in short-term interest rates and the impact of the swap transactions mentioned. Based on the current yield curve and expected 2005 refinancings, we project our blended average interest rate to rise to around 5.6% by the end of 2005, averaging about 5.5% for the entire year.

Our leverage remains within our target range, and at the end of the quarter we had approximately \$40 million in immediate borrowing capacity remaining.

**Simon:**

We're pleased that before the additional revenue to straight-line leasing concessions, we reported FFO at the top of the range that we'd previously projected. As we announced on October 1<sup>st</sup> the Florida storms resulted in a 3<sup>rd</sup> quarter charge of 2 cents a share/unit. Although our overall third quarter results were solid, it became apparent in the third quarter that the management incentive plan, which we had previously anticipated would be partially earned this year, is now unlikely to vest, and so we had to reverse the 2 ½ cent G & A expense accrual that we'd made in the second quarter.

As Eric and Tom have mentioned we were pleased with the results of our occupancy gains in the third quarter. It resulted in a higher than normal level of leasing concessions, of which the vast majority are front-loaded. After much study and discussions with our auditors, we decided that we should record a receivable of \$1.3 million which will be amortized over the average life of the leases, in effect straight-lining concessions that are above our normal run-rate. Frankly, this is not something that we anticipated, which is why we didn't incorporate this into our forecast; it is also something that we resisted for several reasons. It is less conservative, as it brought forward 5 cents per share of FFO into the current period. We also think it complicates our reporting. We will continue to monitor our leasing concessions and straight line them accordingly. As we discussed in our press release, the change caused us to adjust slightly our forecasts for the fourth quarter of 2004 and for 2005.

We will fully disclose the impact of straight-lining of our leasing concessions on our reported results.

In August we closed on the acquisition of the Prescott, a 384-unit apartment community in Atlanta built in 2001 that was 90% occupied. In-going cap-rate was just under 6%, and we paid \$74,000 per unit. We're in the process of closing the purchase of three properties totaling 964 units for a combined investment of just over \$78 million. As we've previously announced, these are located in Austin, Houston, and South Florida, and the combined in-going cap rate is approximately 6.7%, after allowing for a 4% management fee and \$350 per unit reserves. We'll assume debt of \$55 million at a blended interest rate of 7%. We'll be required to fair market value the debt, and currently anticipate that we'll be crediting interest expense by \$1.3 million annually for the remaining 4-year life of the loans.

In October we closed on the sale of Island Retreat, a 112-unit apartment community built 26 years ago at a sale price of \$93,750 per unit, a 5.5% cap rate. This week we closed on the sale of one of our joint venture properties, the Preserve at Arbor Lakes, at a 5.3% cap rate. The combined net gain to Mid-America will total approximately \$9 million. We'll take related FFO write-offs of deferred finance costs and other loan costs of \$85,000 in the fourth quarter. We've also included one other property in our discontinued operations that has not yet sold; we do not know if the sale will close; if it does, it will probably be in the first quarter of 2005.

In adding 5 cents per share/unit to our third quarter results from the straight-lining of the additional leasing concession revenue, we've taken a hard look at the fourth quarter, and decided to slightly reduce our forecast by one cent to a range of 75 to 78 cents. We're thus forecasting FFO for 2004 of between \$2.98 to \$3.01 per share/unit, up from our prior estimates of \$2.91 to \$2.96. Next year we believe that a range of \$3.00 to \$3.10 seems to be realistic, based on the assumptions that we've laid out in the press release. We've dialed into our forecast 2% to 2.5% same store growth of NOI for 2005 compared to a forecast of 1.9% for this year. We're also forecasting \$150 million of acquisitions, less approximately \$20 million of dispositions, which seems to be reasonable based on our performance this year. With the closing of our latest three acquisitions that's in process, together with our joint venture we'll have acquired just under \$200 million so far, and have sold \$33 million including the joint venture asset.

We've been busy on the various Sarbanes-Oxley projects, and seem to be comfortably on track to meet the various year-end deadlines. We expect to expense at least \$750,000 directly related to the project this year; continuing expenses should be less next year, and are included in our forecast.

**Eric:**

To conclude our prepared comments this morning I'd like to emphasize three points.

First, we believe that we are increasingly well positioned for a recovering economy. Changes in portfolio allocation and enhancement to our operating platform put Mid-America in a stronger position for an improving market environment. We have considerable upside to capture from our existing portfolio.

Second, we continue to exercise strict discipline in pursuit of new earnings growth and acquisitions. We've been successful in carefully deploying capital in a manner that will build long-term shareholder value, while remaining sensitive to our need to build current dividend security.

And thirdly, we continue to believe that the pricing of MAA offers a solid value play as compared to both the public and private sector's current pricing of real estate. We've added nearly \$255 million of high-quality real estate to the portfolio over the last two years at an average price of just over \$72,000 per unit. At an average age of 13 years, our portfolio of properties is one of the newer ones in the sector and has been very well maintained. We believe the market's current pricing of MAA at \$58,000 per unit offers a discount to both current real estate pricing and to replacement value.

That's all we have in the way of prepared comments. Matt, I'll turn the call back to you for any questions that we may have.