



MAA EARNINGS CONFERENCE CALL | THIRD QUARTER 2024

TRANSCRIPT | MANAGEMENT PREPARED COMMENTS | OCTOBER 31, 2024, 9:00 AM CT

Andrew Schaeffer, SVP, Treasurer and Director of Capital Markets

Thank you, Julianne, and good morning, everyone. This is Andrew Schaeffer, Treasurer & Director of Capital Markets for MAA. Members of the management team participating on the call this morning are Eric Bolton, Brad Hill, Tim Argo, Clay Holder and Rob DelPriore.

Before we begin with prepared comments this morning, I want to point out, that as part of this discussion, company management will be making forward-looking statements. Actual results may differ materially from our projections. We encourage you to refer to the forward-looking statements section in yesterday's earnings release and our '34-Act filings with the SEC, which describe risk factors that may impact future results.

During this call, we will also discuss certain non-GAAP financial measures. A presentation of the most directly comparable GAAP financial measures, as well as reconciliations of the differences between non-GAAP and comparable GAAP measures, can be found in our earnings release and supplemental financial data.

Our earnings release and supplement are currently available on the "For Investors" page of our website at www.maac.com. A copy of our prepared comments and an audio recording of this call will also be available on our website later today.

After some brief prepared comments, the management team will be available to answer questions.

I will now turn the call over to Eric.

Eric Bolton, Chairman and Chief Executive Officer

Thanks, Andrew and good morning. Third quarter results for Core FFO were ahead of our expectations as same store NOI came in better than our forecast. Based on our analysis, we believe that peak deliveries of new supply, that is impacting our sub-markets and properties, occurred this past third quarter. Despite this record-high supply pressure in Q3, we were able to capture solid performance in occupancy, record low resident turnover, strong collections, and better than expected performance with operating expenses, which all contributed to the third quarter NOI results. In addition, as Tim will detail in his comments, we are beginning to see early trends with new lease pricing that support our position that the worst of the pressures on pricing from new supply are likely behind us. As we have been discussing for the past year or so, we are now poised to see moderating trends in the amount of new supply deliveries that are impacting our portfolio as we head into 2025. We expect to see normal seasonal leasing patterns for the next couple of quarters and remain convinced that the spring leasing season will usher in the start of a recovery cycle with more favorable leasing conditions, as demand and absorption trends across our markets remain strong and the volume of new supply deliveries steadily declines. With strengthening leasing conditions, significant redevelopment opportunity in our existing portfolio, and meaningful efficiency gains from various new technology initiatives, we are excited about the upside outlook from our existing asset base. This momentum, coupled with the significant expansion of our external growth pipeline from our inhouse new development projects, our pre-purchase joint venture program, and our recent new property acquisitions, all combine for what we believe is a positive outlook for meaningful value growth.



Before turning the call over to Brad, I'd like to send my appreciation out to our MAA Associates for their tremendous work and great results over this very busy third quarter.

I'll now turn the call over to Brad.

Brad Hill, President, Chief Investment Officer

Thank you, Eric, and good morning, everyone.

MAA's long-term strategy of focusing on high growth markets and diversifying within those markets, uniquely positions our portfolio to benefit from the continued strong apartment demand in our footprint. As an attractive, more affordable alternative to much of the higher priced new multifamily supply being delivered as well as the available single-family housing options, our residents are choosing to stay with us longer with only 11.5% of our move-outs occurring due to residents buying a home. Our customer service as reflected in our Google scores, which continues to lead the sector, supports our strong renewals and record-low turnover rate. With our 60-day exposure (which represents all current vacancies and notices over the next 60 days) 30 bps better than last year and new deliveries poised to decline, our communities are well positioned for the seasonally slower months and for what we believe will be a stronger leasing environment in the spring and summer of 2025.

Throughout this year, we've continued to make progress using our balance sheet capacity to support future earnings growth. In the third quarter, we added two new projects to our under-construction development pipeline, bringing our total under construction developments to eight projects representing 2,762 units at a cost of approximately \$978 million, a record level of development for MAA. In addition to the previously disclosed 239-unit Charlotte project where we provided financing to take out the equity partner on an under-construction community, we also closed and started construction on a 306-unit community in Richmond, Virginia in the third quarter. The Richmond project was a fully entitled, shovel-ready development that we took over from a developer who was unable to obtain financing. The Charlotte project should deliver first units in the third quarter of 2025, and we expect the Richmond project to deliver first units in first quarter of 2027. We expect to start construction on one more project during the fourth quarter, bringing our total development starts for the year to five at a cost of \$508 million, exceeding our original guidance for the year. We expect these projects to deliver an average expected stabilized NOI yield of 6.3%.

With our development pipeline approaching \$1 billion, our focus turns to maintaining our pipeline at this level going forward. Pre-development work continues on a number of projects in our pipeline which now includes 10 projects, representing future growth of over 2,800 units at an expected cost of \$1.1 billion. We have seen some construction cost declines in a few markets and remain hopeful that as the total under-construction pipeline in our markets continues its steep decline, we could see further improvement in construction costs and schedules as we get into 2025, supporting our ability to start construction on additional opportunities at compelling yields.

In the transaction market, volume remains relatively low with cap rates trending down into the high 4% range. Our team continues to find select, but compelling acquisition opportunities at pricing better than market cap rates, generally in lease-up and often on an off-market basis. In the third quarter, we closed on a 310-unit, suburban property in Orlando for approximately \$84 million, approximately 10% below replacement costs. This newly constructed property is nearly stabilized at just under 90% occupancy. Subsequent to quarter end, we closed on a 386-unit midrise property in the Knox-Henderson area of Dallas at pricing 15% below current replacement costs. This property just wrapped up construction and is in its initial lease-up. This brings our total acquisition volume for the year to just over \$270 million at an average stabilized NOI yield of 5.9%. Our team is actively



evaluating other acquisition opportunities, and we are hopeful we'll close another compelling acquisition before year end.

Subsequent to quarter end, we sold a 216-unit property in Charlotte, North Carolina for \$39 million and we have an additional property in Richmond, Virginia under contract to sell with an expected closing during the fourth quarter. We have two more properties in Columbia, South Carolina on the market with a likely closing in early 2025.

Before I turn the call over to Tim, I want to echo Eric's comments to our associates. Thank you for your hard work and dedication during this busy third quarter.

With that I'll turn it over to Tim.

Tim Argo, EVP, Chief Strategy and Analysis Officer

Thanks Brad and good morning, everyone.

As noted by both Eric and Brad, various demand metrics we track remain strong, partially mitigating the impact of new supply deliveries that we believe peaked in the third quarter. Sixty-day exposure is better than at any point over the last five years, the seasonal deceleration of new lease pricing is less than the prior year and pre-COVID periods, and absorption remains strong. However, pricing growth, particularly on new leases, continues to be impacted by elevated new supply deliveries, but as noted, showed less seasonal deceleration than we typically see this time of the year. For the third quarter, new lease pricing on a lease-over-lease basis was -5.4%, just a 30bps decline from the second quarter, compared to a 270bps decline over the same period last year. In fact, 10 of our top 15 highest concentration markets showed new lease-over-lease growth acceleration from the second to third quarter. Renewal rates for the quarter stayed strong, growing 4.1% on a lease-over-lease basis. These two components resulted in lease-over-lease pricing on a blended basis of -0.2%, also a 30bps decline from the second quarter and compared to a 220bps decline over the same period last year. Average physical occupancy was 95.7%, up 20bps from the second quarter, demonstrating the strong absorption in our markets. Collections continued to outperform expectations, with net delinquency representing just 0.4% of billed rents. All these factors drove the resulting same store revenue that was in line with the third quarter of 2023.

Along with the demand metrics noted, our unique market diversification strategy that Brad mentioned continues to benefit overall portfolio results. As we have mentioned previously, several of our mid-tier markets are holding up better in this higher supply environment. Savannah, Richmond, Charleston, Greenville and our Fredericksburg and other Northern Virginia properties are all outperforming the broader portfolio from a blended lease-over-lease pricing standpoint. Particularly in a down cycle, our portfolio balance between large and mid-tier markets helps strengthen overall portfolio performance. Also, as has been the case all year, Austin, Atlanta, and Jacksonville are markets that continue to be more negatively impacted by the absolute level of supply being delivered into those markets; with Austin being the toughest challenge of all the markets.

We continue to execute on our various redevelopment and repositioning initiatives where it makes sense in this elevated supply environment, with the expectation of starting to re-accelerate next year. For the third quarter of 2024, we completed over 1,700 interior unit upgrades, achieving rent increases of \$108 above non-upgraded units. We are encouraged by the strength of this program in this competitive environment demonstrated by the fact that these units lease quicker on average than a non-renovated unit when adjusted for the additional turn time. For our repositioning program, we have two active projects that are in the re-pricing phase with NOI yields approaching 10%. We have an additional six projects underway with a plan to complete construction and begin re-pricing in the spring of 2025 in what we believe will be an improving leasing environment.



As we wrap up October, we are seeing normal seasonal moderation but are encouraged by demand that should continue to keep the sequential seasonal pricing deceleration better than historical trends. Our 60-day exposure of 6.3% should serve to keep occupancy stable and allow for more pricing power than last year as we also start to lap new lease pricing that weakened significantly during the fourth quarter of last year. Absorption remains strong in our markets with the third quarter representing the first time since the first quarter of 2022 that units absorbed exceeded units delivered. Therefore, there is not a significant backlog of inventory needing to be absorbed. Accordingly, October new lease pricing is within 10bps of September new lease pricing, demonstrating this demand and our expectation of less seasonal moderation in the fourth quarter than we normally experience. Furthermore, lease-over-lease rates on accepted renewals for November and December are in the 4.25% range. We will only re-price approximately 16% of our leases in the fourth quarter, which minimizes the impact of this moderation on the portfolio.

As we have discussed over the last few quarters, new supply deliveries continue to be a headwind in many of our markets. However, we still believe the near-term outlook is in line with what we have discussed the last few quarters. That is, we expect this new supply will begin to moderate, and that we have likely already seen the maximum impact to new lease-over-lease pricing growth, and that the supply-demand balance continues to improve from here, subject to normal seasonality. At a portfolio level, construction starts in our footprint peaked in mid-2022, and we have seen historically that the maximum pressure on leasing is typically about two years after construction start.

That is all I have in the way of prepared comments, I will now turn the call over to Clay.

Clay Holder, EVP, Chief Financial Officer

Thank you, Tim, and good morning, everyone.

We reported Core FFO for the quarter of \$2.21 per share, which was \$0.05 per share above the mid-point of our third quarter guidance. Just under \$0.03 of the favorability was related to favorable SS expenses with an additional \$0.02 driven by a combination of favorable overhead costs, interest expense and non-operating income.

Our same store revenue results for the quarter were relatively “in-line” with expectations. As Tim mentioned, same store revenues benefited from strong occupancy during the quarter. Our same store expense performance, particularly, real estate taxes, was favorable compared to our guidance for the quarter. We received property valuations for our Florida portfolio, which were lower than our expectations. Repairs and maintenance costs continue to show moderation, growing at 2.0% compared to third quarter last year.

During the quarter, we funded nearly \$167 million of development costs of the current \$978 million pipeline, leaving an expected \$368 million to be funded on this pipeline over the next two to three years. We also invested approximately \$13 million of capital through our redevelopment and repositioning programs during the quarter, which we expect to produce solid returns and continue to enhance the quality of our portfolio.

Our balance sheet remains solid. We ended the quarter with just over \$800 million in combined cash and borrowing capacity under our revolving credit facility, providing significant opportunity to fund future investment opportunities. Our leverage remains low with net Debt/EBITDA at 3.9x, and at quarter-end, our outstanding debt was approximately 90% fixed with an average maturity of 7.0 years at an effective rate of 3.8%.



Finally, we are reaffirming the midpoint of our same store NOI and Core FFO guidance for the year, while revising other areas of our detailed guidance that we've previously provided.

Given our operating results achieved through the third quarter, we are slightly adjusting the midpoint of effective rent growth guidance by 15 basis points to 0.35% and revising total same store revenue guidance for the year to 0.50% at the midpoint.

With property valuations for our Florida portfolio now known, we have more insight into our overall real estate tax expense for 2024 and are lowering the midpoint of our guidance to 2.0%. This results in the lowering of our property operating expense growth projections for the year to 3.75% at the midpoint.

The changes to our property operating expense projections, combined with our updated same store revenue expectations, results in reaffirming our original midpoint expectation for same store NOI at -1.3%.

In addition to updating our same store operating projections, we are revising our 2024 guidance to reflect favorable trends in G&A and interest expense.

These adjustments, combined with \$0.02 to \$0.03 of estimated impact of "clean-up" costs relating to storms in the fourth quarter, resulted in us maintaining the midpoint of our full year Core FFO guidance at \$8.88 per share, while narrowing the range to \$8.80 to \$8.96 per share. Including the fourth quarter, we estimate our 2024 results will include approximately \$0.08 to \$0.09 of total storm "clean-up" costs compared to one cent of costs included in our initial 2024 guidance.

That is all we have in the way of prepared comments, so Julianne, we will now turn the call back to you for questions.