

MID AMERICA APARTMENT COMMUNITIES INC
Form 10-K
February 25, 2010

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549**

FORM 10-K

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

For the Fiscal Year Ended December 31, 2009.

OR

o 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: 1-12762

MID-AMERICA APARTMENT COMMUNITIES, INC.

(Exact Name of Registrant as Specified in Its Charter)

TENNESSEE
(State or Other Jurisdiction of
Incorporation or Organization)

62-1543819
(I.R.S. Employer
Identification No.)

6584 POPLAR AVENUE
MEMPHIS, TENNESSEE
(Address of Principal Executive Offices)

38138
(Zip Code)

(901) 682-6600

(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value \$.01 per share	New York Stock Exchange
Series H Cumulative Redeemable Preferred Stock, Par value \$.01 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

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 the 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 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 accelerated filer, large accelerated filer and smaller reporting 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

As of June 30, 2009, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was \$1,022,339,066, based on the closing sale price as reported on the New York Stock Exchange.

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

Class	Outstanding at February 5, 2010
Common Stock, \$.01 par value per share	29,211,776 shares

DOCUMENTS INCORPORATED BY REFERENCE

Document	Parts into Which Incorporated
Certain portions of the Proxy Statement for the Annual Meeting of Shareholders to be held May 27, 2010 to be filed with the Securities and Exchange Commission pursuant to Regulation 14A, not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.	Part III

TABLE OF CONTENTS

MID-AMERICA APARTMENT COMMUNITIES, INC.

TABLE OF CONTENTS

Item	Page
PART I	
<u>1.</u>	<u>2</u>
<u>Business</u>	
<u>1A.</u>	<u>8</u>
<u>Risk Factors</u>	
<u>1B.</u>	<u>16</u>
<u>Unresolved Staff Comments</u>	
<u>2.</u>	<u>16</u>
<u>Properties</u>	
<u>3.</u>	<u>23</u>
<u>Legal Proceedings</u>	
<u>4.</u>	<u>23</u>
<u>Submission of Matters to Vote of Security Holders</u>	
PART II	
<u>5.</u>	<u>24</u>
<u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	
<u>6.</u>	<u>26</u>
<u>Selected Financial Data</u>	
<u>7.</u>	<u>28</u>
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	
<u>7A.</u>	<u>41</u>
<u>Quantitative and Qualitative Disclosures About Market Risk</u>	
<u>8.</u>	<u>42</u>
<u>Financial Statements and Supplementary Data</u>	
<u>9.</u>	<u>42</u>
<u>Changes in and Disagreements With Accountants on Accounting and Financial Disclosure</u>	
<u>9A.</u>	<u>42</u>

<u>Controls and Procedures</u> <u>9A(T).</u>	<u>42</u>
<u>Controls and Procedures</u> <u>9B.</u>	<u>42</u>
<u>Other Information</u> PART III <u>10.</u>	<u>43</u>
<u>Directors, Executive Officers and Corporate Governance</u> <u>11.</u>	<u>43</u>
<u>Executive Compensation</u> <u>12.</u>	<u>43</u>
<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u> <u>13.</u>	<u>43</u>
<u>Certain Relationships and Related Transactions, and Director Independence</u> <u>14.</u>	<u>43</u>
<u>Principal Accounting Fees and Services</u> PART IV <u>15.</u>	<u>44</u>
<u>Exhibits, Financial Statement Schedules</u>	

TABLE OF CONTENTS

PART I

RISKS ASSOCIATED WITH FORWARD-LOOKING STATEMENTS

Mid-America Apartment Communities, Inc. considers this and other sections of this Annual Report on Form 10-K to contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, with respect to our expectations for future periods. Forward looking statements do not discuss historical fact, but instead include statements related to expectations, projections, intentions or other items related to the future. Such forward-looking statements include, without limitation, statements concerning property acquisitions and dispositions, development and renovation activity as well as other capital expenditures, capital raising activities, rent growth, occupancy, and rental expense growth. Words such as expects, anticipates, intends, plans, believes, seeks, estimates, and variations of such words and similar expressions are intended to identify such forward-looking statements. Such statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements to be materially different from the results of operations or plans expressed or implied by such forward-looking statements. Such factors include, among other things, unanticipated adverse business developments affecting us, or our properties, adverse changes in the real estate markets and general and local economies and business conditions. Although we believe that the assumptions underlying the forward-looking statements contained herein are reasonable, any of the assumptions could be inaccurate, and therefore such forward-looking statements included in this report may not prove to be accurate. In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by us or any other person that the results or conditions described in such statements or our objectives and plans will be achieved.

The following factors, among others, could cause our future results to differ materially from those expressed in the forward-looking statements:

- inability to generate sufficient cash flows due to market conditions, changes in supply and/or demand, competition, uninsured losses, changes in tax and housing laws, or other factors;
 - increasing real estate taxes and insurance costs;
- failure of new acquisitions to achieve anticipated results or be efficiently integrated into us;
 - failure of development communities to lease-up as anticipated;
 - inability of a joint venture to perform as expected;
- inability to acquire additional or dispose of existing apartment units on favorable economic terms;
 - losses from catastrophes in excess of our insurance coverage;
 - unexpected capital needs;
 - inability to attract and retain qualified personnel;
 - potential liability for environmental contamination;
 - adverse legislative or regulatory tax changes;
- litigation and compliance costs associated with laws requiring access for disabled persons;
- imposition of federal taxes if we fail to qualify as a REIT under the Internal Revenue Code in any taxable year or foregone opportunities to ensure REIT status;
 - inability to acquire funding through the capital markets;
 - inability to pay required distributions to maintain REIT status due to required debt payments;
- changes in interest rate levels, including that of variable rate debt, such as extensively used by us;
 - loss of hedge accounting treatment for interest rate swaps;
 - the continuation of the good credit of our interest rate swap and cap providers;

TABLE OF CONTENTS

the availability of credit, including mortgage financing, and the liquidity of the debt markets, including a material deterioration of the financial condition of the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation, at present operating under the conservatorship of the United States Government;

inability to meet loan covenants; and

significant decline in market value of real estate serving as collateral for mortgage obligations.

ITEM 1. BUSINESS

OVERVIEW

Founded in 1994, Mid-America Apartment Communities, Inc. is a Memphis, Tennessee-based self-administered and self-managed real estate investment trust, or REIT, that focuses on acquiring, owning and operating apartment communities in the Sunbelt region of the United States. As of December 31, 2009, we owned 100% of 144 properties representing 42,684 apartment units. As of December 31, 2009, we also had 33.33% ownership interests in

Mid-America Multifamily Fund I, LLC, or Fund I, and Mid-America Multifamily Fund II, LLC, or Fund II, which owned two properties containing 626 apartment units and one property containing 294 apartment units, respectively.

These apartment communities were located across 13 states.

Our business is conducted principally through Mid-America Apartments, L.P., which we refer to as our operating partnership. We are the sole general partner of the operating partnership, holding 297,176 common units of partnership interest, or common units, comprising a 1% general partnership interest in the operating partnership as of December 31, 2009. Mid-America Apartment Communities, Inc.'s wholly-owned qualified REIT subsidiary, MAC II of Delaware, Inc. is a limited partner in the operating partnership and, as of December 31, 2009, held 27,114,739 common units, or 91.24% of all outstanding common units. Unless the context otherwise requires, all references in this Annual Report on Form 10-K to we, us, our, the company, or Mid-America refer collectively to Mid-America Apartment Communities, Inc. and its subsidiaries.

Our corporate offices are located at 6584 Poplar Avenue, Memphis Tennessee 38138 and our telephone number is (901) 682-6600. As of December 31, 2009, we had 1,204 full time employees and 78 part time employees.

FINANCIAL INFORMATION ABOUT SEGMENTS

As each of our apartment communities has similar economic characteristics, residents, and products and services, our operations have been aggregated into one reportable segment. See our consolidated financial statements and notes included thereto in Item 15 of this Annual Report on Form 10-K for certain information required by Item 1.

BUSINESS OBJECTIVES

Our primary business objectives are to protect and grow existing property values, to maintain a stable and increasing cash flow that will fund our dividend through all parts of the real estate investment cycle, and to create new shareholder value by growing in a disciplined manner. To achieve these objectives, we intend to continue to pursue the following goals and strategies:

effectively and efficiently operate our existing properties with intense property and asset management focus and a decentralized structure;

when accretive to shareholder value, acquire additional high-quality properties throughout the Sunbelt region of the United States;

selectively dispose of properties that no longer meet our ownership guidelines;
develop, renovate and reposition existing properties;
enter into joint ventures to acquire and reposition properties; and
actively manage our capital structure.

2

TABLE OF CONTENTS

OPERATION STRATEGY

Our goal is to maximize our return on investment collectively and in each apartment community by increasing revenues, tightly controlling operating expenses, maintaining high occupancy levels and reinvesting as appropriate.

The steps taken to meet these objectives include:

- diversifying portfolio investments across both large and secondary markets;
- providing management information and improved customer services through technology innovations;
- utilizing systems to enhance property managers' ability to optimize revenue by adjusting rents in response to local market conditions and individual unit amenities;
- developing new ancillary income programs aimed at offering new services to residents, including telephone, cable, and internet access, on which we generate revenue;
- implementing programs to control expenses through investment in cost-saving initiatives, including measuring and passing on to residents the cost of various expenses, including water and other utility costs;
- analyzing individual asset productivity performances to identify best practices and improvement areas;
- proactively maintaining the physical condition of each property;
- improving the curb appeal of the apartment communities through extensive landscaping and exterior improvements, and repositioning apartment communities from time-to-time to maintain market leadership positions;
- compensating employees through performance-based compensation and stock ownership programs;
- maintaining a hands-on management style and flat organizational structure that emphasizes senior management's continued close contact with the market and employees;
- selling or exchanging underperforming assets;
- repurchasing or issuing shares of common or preferred stock when cost of capital and asset values permit;
- aggressively managing lease expirations to align with peak leasing traffic patterns and to maximize productivity of property staffing;
- allocating additional capital, including capital for selective interior and exterior improvements, where the investment will generate the highest returns;
- acquiring and from time to time developing properties when expected returns exceed our investment hurdle rate; and
- maintaining disciplined investment and capital allocation practices as a value investor.

Decentralized Operational Structure

We operate in a decentralized manner. We believe that our decentralized operating structure capitalizes on specific market knowledge, provides greater personal accountability than a centralized structure and is beneficial in the acquisition and redevelopment processes. To support this decentralized operational structure, senior and executive management, along with various asset management functions, are proactively involved in supporting and reviewing property management through extensive reporting processes and frequent on-site visitations. To maximize the amount of information shared between senior and executive management and the properties on a real time basis, we utilize a web-based property management system. The system contains property and accounting modules which allow for operating efficiencies, continued expense control, provide for various expanded revenue management practices, and improve the support provided to on-site property operations. We use a yield management pricing program that helps our property managers optimize rental revenues and we also utilize purchase order and accounts payable software to provide improved controls and

TABLE OF CONTENTS

management information. We have also implemented revised utility billing processes, rolled out new web-sites enabling on-line lease applications and improved web-based marketing programs.

Intensive Property and Asset Management Focus

We have traditionally emphasized property management, and over the past several years, we have deepened our asset management functions to provide additional support in marketing, training, ancillary income and, most recently, revenue management. A large majority of our property managers are Certified Apartment Managers, a designation established by the National Apartment Association, which provides training for on-site manager professionals. We also provide our own in-house leadership development program consisting of an 18-month, three-module program followed by two comprehensive case studies which was developed with the assistance of U.S. Learning, Inc.

ACQUISITION STRATEGY

One of our growth strategies is to acquire and redevelop apartment communities diversified over both large and secondary markets throughout the Sunbelt region of the United States that meet our investment criteria when the expected leveraged returns exceed our investment hurdle rate, generally defined as our estimated cost of equity plus 20%. We have extensive experience and research-based skills in the acquisition and repositioning of multifamily communities. In addition, Mid-America will acquire newly built and developed communities that can be purchased on a favorable pricing basis. We will continue to evaluate opportunities that arise, and will utilize this strategy to increase the number of apartment communities in strong and growing markets.

The following apartment communities were purchased during 2009:

Property	Location	Number of Units	Date Purchased
100% Owned Properties:			
Sky View Ranch	Gilbert (Phoenix), AZ	232	June 12, 2009
Park Crest at Innisbrook	Palm Harbor (Tampa), FL	432	October 9, 2009
Stone Ranch at Westover Hills	San Antonio, TX	400	December 4, 2009
Legacy at Western Oaks	Austin, TX	479	December 30, 2009
Village Oaks ⁽¹⁾	Temple Terrace (Tampa), FL	7	Various
		1,550	
33.33% Owned Properties Through Joint Ventures:			
Ansley Village	Macon, GA	294	July 24, 2009
		294	
Total 2009 Acquisitions		1,844	

On August 27, 2008, we purchased 215 units of the 234-unit Village Oaks apartments located in Temple Terrace, Florida, a suburb of Tampa. The remaining 19 units had previously been sold as condominiums and it is our intent (1) to acquire these units if and when they become available, and operate them as apartment rentals with the rest of the community. During the remainder of 2008, we acquired four of the remaining 19 units and in 2009 we acquired an additional seven units.

DISPOSITION STRATEGY

We have one of the younger portfolios in the multifamily REIT sector, and strive to maintain a young portfolio of our assets in excellent condition, believing that continuous capital replacement and maintenance will lead to higher long-run returns on investment. From time-to-time we dispose of mature assets, defined as those apartment communities that no longer meet our investment criteria and long-term strategic objectives, to ensure that our portfolio consists primarily of high quality, well-located properties within our market area. Typically, we select assets for disposition that do not meet our present investment criteria, including estimated future return on investment, location, market, potential for growth, and capital needs. From time-to-time we also may dispose of assets for which we receive an offer meeting or exceeding our return on investment criteria even though those assets may not meet the disposition criteria disclosed above.