

MID AMERICA APARTMENT COMMUNITIES INC
Form 10-Q
May 01, 2015

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 March 31, 2015
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.)
Commission File Number 333-190028-01 (Mid-America Apartments, L.P.)

MID-AMERICA APARTMENT COMMUNITIES, INC.
MID-AMERICA APARTMENTS, L.P.
(Exact name of registrant as specified in its charter)

Tennessee (Mid-America Apartment Communities, Inc.) 62-1543819
Tennessee (Mid-America Apartments, L.P.) 62-1543816
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification Number)
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.

Mid-America Apartment Communities, Inc. YES R NO o
Mid-America Apartments, L.P. YES R NO o

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

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to submit and post such files).

Mid-America Apartment Communities, Inc. YES NO

Mid-America Apartments, L.P. 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 company" in Rule 12b-2 of the Exchange Act.

Mid-America Apartment Communities, Inc.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting company)

Mid-America Apartments, L.P.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting company)

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

Mid-America Apartment Communities, Inc. YES NO

Mid-America Apartments, L.P. 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 April 27, 2015
Common Stock, \$0.01 par value	75,346,684

MID-AMERICA APARTMENT COMMUNITIES, INC.
MID-AMERICA APARTMENTS, L.P.

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Explanatory Note

This Report combines the Reports for the quarter ended March 31, 2015 of Mid-America Apartment Communities, Inc., a Tennessee corporation and Mid-America Apartments, L.P., a Tennessee limited partnership, of which Mid-America Apartment Communities, Inc. is the sole general partner. Mid-America Apartment Communities, Inc. and its 94.7% owned subsidiary, Mid-America Apartments, L.P., are both required to file periodic Reports under the Securities Exchange Act of 1934, as amended.

Unless the context otherwise requires, all references in this Report to "MAA" refers only to Mid-America Apartment Communities, Inc., and not to any of its consolidated subsidiaries. Unless the context otherwise requires, all references in this Report to "we," "us," "our," or the "Company" refer collectively to Mid-America Apartment Communities, Inc., together with its consolidated subsidiaries, including Mid-America Apartments, L.P. Unless the context otherwise requires, the references in this Report to the "Operating Partnership" or "MAALP" refer to Mid-America Apartments, L.P. together with its consolidated subsidiaries. "Common stock" refers to the common stock of MAA and "shareholders" means the holders of shares of MAA's common stock. The limited partnership interests of the Operating Partnership are referred to as "OP Units" and the holders of the OP Units are referred to as "unitholders".

As of March 31, 2015, MAA owned 75,345,023 units (or approximately 94.7%) of the limited partnership interests of the Operating Partnership. MAA conducts substantially all of its business and holds substantially all of its assets through the Operating Partnership, and by virtue of its ownership of the OP Units and being the Operating Partnership's sole general partner, MAA has the ability to control all of the day-to-day operations of the Operating Partnership.

We believe combining the Reports of MAA and the Operating Partnership, including the notes to the condensed consolidated financial statements, into this single Report results in the following benefits:

- enhances investors' understanding of MAA and the Operating Partnership by enabling investors to view the business as a whole in the same manner that management views and operates the business;
- eliminates duplicative disclosure and provides a more streamlined and readable presentation since a substantial portion of the disclosure in this Report applies to both MAA and the Operating Partnership; and
- creates time and cost efficiencies through the preparation of one combined Report instead of two separate Reports.

Management operates MAA and the Operating Partnership as one business. The management of the Company is comprised of individuals who are officers of MAA and employees of the Operating Partnership. We believe it is important to understand the few differences between MAA and the Operating Partnership in the context of how MAA and the Operating Partnership operate as a consolidated company. MAA and the Operating Partnership are structured as an "umbrella partnership REIT," or UPREIT. MAA's interest in the Operating Partnership entitles MAA to share in cash distributions from, and in the profits and losses of, the Operating Partnership in proportion to MAA's percentage interest therein and entitles MAA to vote on substantially all matters requiring a vote of the limited partners. MAA's only material asset is its ownership of limited partner interests in the Operating Partnership; therefore, MAA does not conduct business itself, other than acting as the sole general partner of the Operating Partnership, issuing public equity from time-to-time and guaranteeing certain debt of the Operating Partnership. The Operating Partnership holds, directly or indirectly, all of our real estate assets. Except for net proceeds from public equity issuances by MAA, which are contributed to the Operating Partnership in exchange for limited partner interests, the Operating Partnership generates the capital required by the Company's business through the Operating Partnership's operations, direct or indirect incurrence of indebtedness and issuance of partnership units.

The presentation of MAA's shareholders' equity and the Operating Partnership's capital are the principal areas of difference between the consolidated financial statements of MAA and those of the Operating Partnership. MAA's

shareholders' equity may include shares of preferred stock, shares of common stock, additional paid-in capital, cumulative earnings, cumulative distributions, noncontrolling interest, preferred units, treasury shares, accumulated other comprehensive income and redeemable common units. The Operating Partnership's capital may include common capital and preferred capital of the general partner (MAA), limited partners' preferred capital, limited partners' noncontrolling interest, accumulated other comprehensive income and redeemable common units. Redeemable common units represent the number of outstanding OP Units as of the date of the applicable balance sheet, valued for conversion at the greater of the closing market price of MAA's common stock or the aggregate value of the individual partners' capital balances. Holders of common units in the Operating Partnership (other than MAA and its entity affiliates) may require the Operating Partnership to redeem their common units, in which case the Operating Partnership may, at its option, pay the redemption price either in cash (in an amount per common unit equal, in general, to the average closing price of MAA's common stock on the New York Stock Exchange, or "NYSE", over a specified period of time prior to the redemption date) or by delivering one share of our common stock (subject to adjustment under specified circumstances) for each common unit so redeemed.

In order to highlight the material differences between MAA and the Operating Partnership, this Report includes sections that separately present and discuss areas that are materially different between MAA and the Operating Partnership, including:

- the consolidated financial statements in Item 1 of this Report;
- certain accompanying notes to the financial statements, including Note 2 - Earnings per Common Share of MAA and Note 3 - Earnings per OP Unit of MAALP; and Note 9 - Shareholders' Equity of MAA and Note 10 - Partners' Capital of MAALP;
- the certifications of the Chief Executive Officer and Chief Financial Officer of MAA included as Exhibits 31 and 32 to this Report.

In the sections that combine disclosure for MAA and the Operating Partnership, this Report refers to actions or holdings as being actions or holdings of the Company. Although the Operating Partnership (directly or indirectly through one of its subsidiaries) is generally the entity that enters into contracts, holds assets and issues debt, management believes this presentation is appropriate for the reasons set forth above and because the business is one enterprise and we operate the business through the Operating Partnership.

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Mid-America Apartment Communities, Inc.
 Condensed Consolidated Balance Sheets
 March 31, 2015 and December 31, 2014
 (Unaudited)
 (Dollars in thousands, except share data)

	March 31, 2015	December 31, 2014
Assets:		
Real estate assets:		
Land	\$889,912	\$907,598
Buildings and improvements	6,558,169	6,763,978
Furniture, fixtures and equipment	203,808	212,850
Development and capital improvements in progress	71,119	80,772
	7,723,008	7,965,198
Less accumulated depreciation	(1,268,103)	(1,358,399)
	6,454,905	6,606,799
Undeveloped land	47,242	47,242
Corporate properties, net	8,337	7,988
Investments in real estate joint ventures	1,802	1,791
Assets held for sale	175,292	36,452
Real estate assets, net	6,687,578	6,700,272
Cash and cash equivalents	18,331	25,401
Restricted cash	26,951	28,181
Deferred financing costs, net	13,638	17,812
Other assets	50,863	57,041
Goodwill	2,321	2,321
Total assets	\$6,799,682	\$6,831,028
Liabilities and equity:		
Liabilities:		
Secured notes payable	\$1,429,069	\$1,592,116
Unsecured notes payable	2,050,424	1,932,399
Accounts payable	7,680	8,395
Fair market value of interest rate swaps	15,007	13,392
Accrued expenses and other liabilities	195,222	216,478
Security deposits	10,490	10,526
Liabilities associated with assets held for sale	32,084	—
Total liabilities	3,739,976	3,773,306
Redeemable stock	6,309	5,911
Shareholders' equity:		
Common stock, \$0.01 par value per share, 100,000,000 shares authorized; 75,345,023 and 75,267,675 shares issued and outstanding at March 31, 2015 and December 31, 2014, respectively ⁽¹⁾	753	752
Additional paid-in capital	3,619,976	3,619,270
Accumulated distributions in excess of net income	(726,062)	(729,086)

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Accumulated other comprehensive loss	(2,453) (412)
Total MAA shareholders' equity	2,892,214	2,890,524	
Noncontrolling interest	161,183	161,287	
Total equity	3,053,397	3,051,811	
Total liabilities and equity	\$6,799,682	\$6,831,028	

Number of shares issued and outstanding represent total shares of common stock regardless of classification on the consolidated balance sheet. The number of shares classified as redeemable stock on the consolidated balance sheet for March 31, 2015 and December 31, 2014 are 81,645 and 87,818, respectively.

See accompanying notes to condensed consolidated financial statements.

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Mid-America Apartment Communities, Inc.
Condensed Consolidated Statements of Operations
Three months ended March 31, 2015 and 2014
(Unaudited)
(Dollars in thousands, except per share data)

	Three months ended March 31,	
	2015	2014
Operating revenues:		
Rental revenues	\$234,199	\$220,988
Other property revenues	23,612	22,402
Total property revenues	257,811	243,390
Management fee income	—	97
Total operating revenues	257,811	243,487
Property operating expenses:		
Personnel	25,653	24,909
Building repairs and maintenance	6,622	6,748
Real estate taxes and insurance	33,192	31,131
Utilities	22,028	21,548
Landscaping	5,392	5,408
Other operating	7,507	7,619
Depreciation and amortization	73,112	90,013
Total property operating expenses	173,506	187,376
Acquisition expense	339	11
Property management expenses	8,493	7,011
General and administrative expenses	6,566	4,342
Merger related expenses	—	2,076
Integration related expenses	—	3,842
Income from continuing operations before non-operating items	68,907	38,829
Interest and other non-property (expense) income	(157	) 160
Interest expense	(29,931	) (30,676
Loss on debt extinguishment	(3,376) —
Amortization of deferred financing costs	(917	) (1,311
Net casualty loss after insurance and other settlement proceeds	(19	) (10
Gain on sale of depreciable real estate assets excluded from discontinued operations	30,228	2,564
Gain on sale of non-depreciable real estate assets	—	557
Income before income tax expense	64,735	10,113
Income tax expense	(510	) (270
Income from continuing operations before joint venture activity	64,225	9,843
Gain (loss) from real estate joint ventures	19	(24
Income from continuing operations	64,244	9,819
Discontinued operations:		
Income from discontinued operations before gain on sale	433	416
Net casualty loss after insurance and other settlement proceeds on discontinued operations	—	(2
Gain on sale of discontinued operations	—	5,481
Consolidated net income	64,677	15,714
Net income attributable to noncontrolling interests	3,410	848
Net income available for MAA common shareholders	\$61,267	\$14,866

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Earnings per common share - basic:

Income from continuing operations available for common shareholders	\$0.81	\$0.12
Discontinued property operations	—	0.08
Net income available for common shareholders	\$0.81	\$0.20

Earnings per common share - diluted:

Income from continuing operations available for common shareholders	\$0.81	\$0.12
Discontinued property operations	—	0.08
Net income available for common shareholders	\$0.81	\$0.20

Dividends declared per common share \$0.7700 \$0.7300

See accompanying notes to condensed consolidated financial statements.

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Mid-America Apartment Communities, Inc.
 Condensed Consolidated Statements of Comprehensive Income
 Three months ended March 31, 2015 and 2014
 (Unaudited)
 (Dollars in thousands)

	Three months ended March	
	31,	
	2015	2014
Consolidated net income	\$64,677	\$15,714
Other comprehensive income:		
Unrealized loss from the effective portion of derivative instruments	(4,347	) (997
Reclassification adjustment for net losses included in net income for the effective portion of derivative instruments	2,192	3,725
Total comprehensive income	62,522	18,442
Less: comprehensive loss attributable to noncontrolling interests	(3,296	) (992
Comprehensive income attributable to MAA	\$59,226	\$17,450

See accompanying notes to condensed consolidated financial statements.

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Mid-America Apartment Communities, Inc.
 Condensed Consolidated Statements of Cash Flows
 Three months ended March 31, 2015 and 2014
 (Unaudited)
 (Dollars in thousands)

	Three months ended March 31,	
	2015	2014
Cash flows from operating activities:		
Consolidated net income	\$64,677	\$15,714
Adjustments to reconcile net income to net cash provided by operating activities:		
Retail revenue accretion	(29)	(6)
Depreciation and amortization	74,034	91,469
Stock compensation expense	1,289	948
Redeemable stock issued	189	145
Amortization of debt premium	(5,197)	(7,402)
(Gain) loss from investments in real estate joint ventures	(17)	24
Loss on debt extinguishment	2,787	—
Derivative interest (credit) expense	(473)	427
Gain on sale of non-depreciable real estate assets	—	(557)
Gain on sale of depreciable real estate assets excluded from discontinued operations	(30,228)	(2,564)
Gain on sale of discontinued operations	—	(5,481)
Net casualty loss and other settlement proceeds	19	12
Changes in assets and liabilities:		
Restricted cash	7,391	787
Other assets	2,441	5,664
Accounts payable	(431)	106
Accrued expenses and other	(16,060)	(3,465)
Security deposits	465	240
Net cash provided by operating activities	100,857	96,061
Cash flows from investing activities:		
Purchases of real estate and other assets	(48,685)	(24,857)
Normal capital improvements	(16,499)	(15,033)
Construction capital and other improvements	(3,153)	(3,521)
Renovations to existing real estate assets	(5,150)	(1,417)
Development	(5,034)	(33,232)
Distributions from real estate joint ventures	6	8,865
Proceeds from disposition of real estate assets	52,770	93,127
(Funding) return of escrow for future acquisitions	(6,431)	4,395
Net cash (used in) provided by investing activities	(32,176)	28,327
Cash flows from financing activities:		
Net change in credit lines	3,885	(17,936)
Proceeds from notes payable	—	344
Principal payments on notes payable	(17,472)	(17,986)
Payment of deferred financing costs	(172)	(145)
Repurchase of common stock	(937)	(285)
Proceeds from issuances of common shares	8	227
Exercise of stock options	—	1,775
Distributions to noncontrolling interests	(3,223)	(3,086)

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Dividends paid on common shares	(57,840)	(54,661)
Net cash used in financing activities	(75,751)	(91,753)
Net (decrease) increase in cash and cash equivalents	(7,070)	32,635
Cash and cash equivalents, beginning of period	25,401	89,333
Cash and cash equivalents, end of period	\$18,331	\$121,968
Supplemental disclosure of cash flow information:		
Interest paid	\$27,017	\$30,408
Supplemental disclosure of noncash investing and financing activities:		
Conversion of units to shares of common stock	\$46	\$744
Accrued construction in progress	\$8,392	\$9,971
Interest capitalized	\$474	\$513
Marked-to-market adjustment on derivative instruments	\$(1,659)	\$2,300
Fair value adjustment on debt assumed	\$—	\$1,651
Loan assumption	\$—	\$31,692
See accompanying notes to condensed consolidated financial statements.		

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Mid-America Apartments, L.P.
Condensed Consolidated Balance Sheets
March 31, 2015 and December 31, 2014
(Dollars in thousands, except unit data)

	March 31, 2015	December 31, 2014
Assets:		
Real estate assets:		
Land	\$889,912	\$907,598
Buildings and improvements	6,558,169	6,763,978
Furniture, fixtures and equipment	203,808	212,850
Development and capital improvements in progress	71,119	80,772
	7,723,008	7,965,198
Less accumulated depreciation	(1,268,103)	(1,358,399)
	6,454,905	6,606,799
Undeveloped land	47,242	47,242
Corporate properties, net	8,337	7,988
Investments in real estate joint ventures	1,802	1,791
Assets held for sale	175,292	36,452
Real estate assets, net	6,687,578	6,700,272
Cash and cash equivalents	18,331	25,401
Restricted cash	26,951	28,181
Deferred financing costs, net	13,638	17,812
Other assets	50,863	57,041
Goodwill	2,321	2,321
Total assets	\$6,799,682	\$6,831,028
Liabilities and Capital:		
Liabilities:		
Secured notes payable	\$1,429,069	\$1,592,116
Unsecured notes payable	2,050,424	1,932,399
Accounts payable	7,680	8,395
Fair market value of interest rate swaps	15,007	13,392
Accrued expenses and other liabilities	195,222	216,478
Security deposits	10,490	10,526
Due to general partner	19	19
Liabilities associated with assets held for sale	32,084	—
Total liabilities	3,739,995	3,773,325
Redeemable units	6,309	5,911
Capital:		
General partner: 75,345,023 OP Units outstanding at March 31, 2015 and 75,267,675 OP Units outstanding at December 31, 2014 ⁽¹⁾	2,894,589	2,890,858
Limited partners: 4,189,966 OP Units outstanding at March 31, 2015 and 4,191,152 OP Units outstanding at December 31, 2014 ⁽¹⁾	161,320	161,310

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Accumulated other comprehensive loss	(2,531) (376)
Total capital	3,053,378	3,051,792	
Total liabilities and capital	\$6,799,682	\$6,831,028	

Number of units outstanding represent total OP Units regardless of classification on the consolidated balance sheet.

(1) The number of units classified as redeemable units on the consolidated balance sheet at March 31, 2015 and December 31, 2014 are 81,645 and 87,818, respectively.

See accompanying notes to condensed consolidated financial statements.

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Mid-America Apartments, L.P.
 Condensed Consolidated Statements of Operations
 Three months ended March 31, 2015 and 2014
 (Unaudited)
 (Dollars in thousands, except per unit data)

	Three months ended March	
	31, 2015	2014
Operating revenues:		
Rental revenues	\$234,199	\$220,988
Other property revenues	23,612	22,402
Total property revenues	257,811	243,390
Management fee income	—	97
Total operating revenues	257,811	243,487
Property operating expenses:		
Personnel	25,653	24,909
Building repairs and maintenance	6,622	6,748
Real estate taxes and insurance	33,192	31,131
Utilities	22,028	21,548
Landscaping	5,392	5,408
Other operating	7,507	7,619
Depreciation and amortization	73,112	90,013
Total property operating expenses	173,506	187,376
Acquisition expense	339	11
Property management expenses	8,493	7,011
General and administrative expenses	6,566	4,342
Merger related expenses	—	2,076
Integration related expenses	—	3,842
Income from continuing operations before non-operating items	68,907	38,829
Interest and other non-property (expense) income	(157	) 160
Interest expense	(29,931	) (30,676
Loss on debt extinguishment	(3,376) —
Amortization of deferred financing costs	(917	) (1,311
Net casualty loss after insurance and other settlement proceeds	(19	) (10
Gain on sale of depreciable real estate assets excluded from discontinued operations	30,228	2,564
Gain on sale of non-depreciable real estate assets	—	557
Income before income tax expense	64,735	10,113
Income tax expense	(510	) (270
Income from continuing operations before joint venture activity	64,225	9,843
Gain (loss) from real estate joint ventures	19	(24
Income from continuing operations	64,244	9,819
Discontinued operations:		
Income from discontinued operations before gain on sale	433	416
Net casualty loss after insurance and other settlement proceeds on discontinued operations	—	(2
Gain on sale of discontinued operations	—	5,481
Net income available for Mid-America Apartments, L.P. common unitholders	\$64,677	\$15,714

Earnings per common unit - basic:

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Income from continuing operations available for common unitholders	\$0.81	\$0.12
Income from discontinued operations available for common unitholders	—	0.08
Net income available for common unitholders	\$0.81	\$0.20
Earnings per common unit - diluted:		
Income from continuing operations available for common unitholders	\$0.81	\$0.12
Income from discontinued operations available for common unitholders	—	0.08
Net income available for common unitholders	\$0.81	\$0.20
Distributions declared per common unit	\$0.7700	\$0.7300

See accompanying notes to condensed consolidated financial statements.

Mid-America Apartments, L.P.
 Condensed Consolidated Statements of Comprehensive Income
 Three months ended March 31, 2015 and 2014
 (Unaudited)
 (Dollars in thousands)

	Three months ended March	
	2015	2014
Net income available for Mid-America Apartments, L.P. common unitholders	\$64,677	\$15,714
Other comprehensive income:		
Unrealized loss from the effective portion of derivative instruments	(4,347	) (997
Reclassification adjustment for net losses included in net income for the effective portion of derivative instruments	2,192	3,725
Comprehensive income attributable to Mid-America Apartments, L.P.	\$62,522	\$18,442

See accompanying notes to condensed consolidated financial statements.

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Mid-America Apartments, L.P.
 Condensed Consolidated Statements of Cash Flows
 Three months ended March 31, 2015 and 2014
 (Unaudited)
 (Dollars in thousands)

	Three months ended March 31,	
	2015	2014
Cash flows from operating activities:		
Consolidated net income	\$64,677	\$15,714
Adjustments to reconcile net income to net cash provided by operating activities:		
Retail revenue accretion	(29)	(6)
Depreciation and amortization	74,034	91,469
Stock compensation expense	1,289	948
Redeemable units issued	189	145
Amortization of debt premium	(5,197)	(7,402)
(Gain) loss from investments in real estate joint ventures	(17)	24
Loss on debt extinguishment	2,787	—
Derivative interest (credit) expense	(473)	427
Gain on sale of non-depreciable real estate assets	—	(557)
Gain on sale of depreciable real estate assets excluded from discontinued operations	(30,228)	(2,564)
Gain on sale of discontinued operations	—	(5,481)
Net casualty loss and other settlement proceeds	19	12
Changes in assets and liabilities:		
Restricted cash	7,391	787
Other assets	2,441	5,664
Accounts payable	(431)	106
Accrued expenses and other	(16,060)	(3,465)
Security deposits	465	240
Net cash provided by operating activities	100,857	96,061
Cash flows from investing activities:		
Purchases of real estate and other assets	(48,685)	(24,857)
Normal capital improvements	(16,499)	(15,033)
Construction capital and other improvements	(3,153)	(3,521)
Renovations to existing real estate assets	(5,150)	(1,417)
Development	(5,034)	(33,232)
Distributions from real estate joint ventures	6	8,865
Proceeds from disposition of real estate assets	52,770	93,127
(Funding) return of escrow for future acquisitions	(6,431)	4,395
Net cash (used in) provided by investing activities	(32,176)	28,327
Cash flows from financing activities:		
Net change in credit lines	3,885	(17,936)
Proceeds from notes payable	—	344
Principal payments on notes payable	(17,472)	(17,986)
Payment of deferred financing costs	(172)	(145)
Repurchase of common units	(937)	(285)
Proceeds from issuances of common units	8	227
Exercise of unit options	—	1,775
Distributions paid on common units	(61,063)	(57,747)

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Net cash used in financing activities	(75,751)	(91,753)
Net (decrease) increase in cash and cash equivalents	(7,070)	32,635
Cash and cash equivalents, beginning of period	25,401	89,333
Cash and cash equivalents, end of period	\$18,331	\$121,968
Supplemental disclosure of cash flow information:		
Interest paid	\$27,017	\$30,408
Supplemental disclosure of noncash investing and financing activities:		
Accrued construction in progress	\$8,392	\$9,971
Interest capitalized	\$474	\$513
Marked-to-market adjustment on derivative instruments	\$(1,659)	\$2,300
Fair value adjustment on debt assumed	\$—	\$1,651
Loan assumption	\$—	\$31,692
See accompanying notes to condensed consolidated financial statements.		

Mid-America Apartment Communities, Inc. and Mid-America Apartments, L.P.
Notes to Condensed Consolidated Financial Statements
March 31, 2015 and 2014
(Unaudited)

1. Basis of Presentation and Principles of Consolidation and Significant Accounting Policies

Unless the context otherwise requires, all references to "we," "us," "our," or the "Company" refer collectively to Mid-America Apartment Communities, Inc., together with its consolidated subsidiaries, including the Mid-America Apartments, L.P. Unless the context otherwise requires, all references to "MAA" refer only to Mid-America Apartment Communities, Inc., and not any of its consolidated subsidiaries. Unless the context otherwise requires, the references to the "Operating Partnership" or "MAALP" refer to Mid-America Apartments, L.P. together with its consolidated subsidiaries. "Common stock" refers to the common stock of MAA and "shareholders" means the holders of shares of MAA's common stock. The limited partnership interests of the Operating Partnership are referred to as "OP Units" and the holders of the OP Units are referred to as "unitholders".

As of March 31, 2015, MAA owned 75,345,023 units (or approximately 94.7%) of the limited partnership interests of the Operating Partnership. MAA conducts substantially all of its business and holds substantially all of its assets through the Operating Partnership, and by virtue of its ownership of the OP Units and being the Operating Partnership's sole general partner, MAA has the ability to control all of the day-to-day operations of the Operating Partnership.

We believe combining the notes to the consolidated financial statements of MAA and MAALP results in the following benefits:

- enhances a readers' understanding of MAA and the Operating Partnership by enabling the reader to view the business as a whole in the same manner that management views and operates the business;
- eliminates duplicative disclosure and provides a more streamlined and readable presentation since a substantial portion of the disclosure applies to both MAA and the Operating Partnership.

Management operates MAA and the Operating Partnership as one business. The management of the Company is comprised of individuals who are officers of MAA and employees of the Operating Partnership. We believe it is important to understand the few differences between MAA and the Operating Partnership in the context of how MAA and the Operating Partnership operate as a consolidated company. MAA and the Operating Partnership are structured as an "umbrella partnership REIT," or UPREIT. MAA's interest in the Operating Partnership entitles MAA to share in cash distributions from, and in the profits and losses of, the Operating Partnership in proportion to MAA's percentage interest therein and entitles MAA to vote on substantially all matters requiring a vote of the limited partners. MAA's only material asset is its ownership of limited partner interests in the Operating Partnership; therefore, MAA does not conduct business itself, other than acting as the sole general partner of the Operating Partnership, issuing public equity from time to time and guaranteeing certain debt of the Operating Partnership. The Operating Partnership holds, directly or indirectly, all of our real estate assets. Except for net proceeds from public equity issuances by MAA, which are contributed to the Operating Partnership in exchange for OP Units, the Operating Partnership generates the capital required by our business through the Operating Partnership's operations, direct or indirect incurrence of indebtedness and issuance of partnership units.

The presentation of MAA's shareholders' equity and the Operating Partnership's capital are the principal areas of difference between the consolidated financial statements of MAA and those of the Operating Partnership. MAA's shareholders' equity may include shares of preferred stock, shares of common stock, additional paid-in capital, cumulative earnings, cumulative distributions, noncontrolling interest, preferred units, treasury shares, accumulated

other comprehensive income and redeemable common units. The Operating Partnership's capital may include common capital and preferred capital of the general partner (MAA), limited partners' preferred capital, limited partners' noncontrolling interest, accumulated other comprehensive income and redeemable common units. Redeemable common units represent the number of outstanding OP Units as of the date of the applicable balance sheet, valued at the greater of the closing market price of MAA's common stock or the aggregate value of the individual partners' capital balances. Each redeemable OP Unit may be redeemed by the holder thereof for either cash equal to the fair market value of one share of common stock of MAA at the time of such redemption or, at the option of MAA, one share of common stock of MAA.

As of March 31, 2015, we owned and operated 265 apartment communities comprising 81,976 apartments located in 14 states principally through the Operating Partnership.

As of March 31, 2015, we had three development communities under construction totaling 634 units, with 163 units completed. Total expected costs for the development projects are \$93.9 million, of which \$69.5 million has been incurred through March 31, 2015. We expect to complete construction on the first project by the second quarter of 2015, the second project by the third quarter of 2015, and the third project by the fourth quarter of 2015. Five of our multifamily properties include retail components with approximately 163,000 square feet of gross leasable area. We also have two wholly owned commercial properties, which we acquired through our merger with Colonial Properties Trust, or Colonial, with approximately 263,000 square feet of gross leasable area, excluding tenant owned anchor stores, and one partially owned commercial property with approximately 30,000 square feet of gross leasable area.

Reclassifications

In order to present comparative financial statements, certain reclassifications have been made to prior period numbers. In our Form 10-Q for the three months ended March 31, 2014, we reported approximately \$0.3 million in permits and fees and general maintenance costs in the Other operating expense line for the three months ended March 31, 2014. These costs have been reclassified to Building repairs and maintenance for the three months ended March 31, 2014, presented in the Statement of Operations included in this Report. In our Form 10-Q for the three months ended March 31, 2014, we also reported approximately \$8.1 million in utility costs, primarily for cable TV, trash removal, and telephone costs, in the Other operating expense line for the three months ended March 31, 2014. These costs have been reclassified to Utilities for the three months ended March 31, 2014, presented in the Statement of Operations included in this Report. In our Form 10-Q for the three months ended March 31, 2014, we also reported approximately \$36.5 million as Assets held for sale, excluded from Real estate assets, net. These assets have been reclassified to Assets held for sale within Real estate assets, net on the condensed consolidated balance sheet included in this Report. Total assets was unchanged due to this reclassification. These changes have been made in order to provide better insight into our property operating expenses and balance sheet position.

Basis of Presentation and Principles of Consolidation

The accompanying condensed consolidated financial statements have been prepared by our management in accordance with United States generally accepted accounting principles, or GAAP, and applicable rules and regulations of the Securities and Exchange Commission, or the SEC. The condensed consolidated financial statements of MAA 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 95% to 100% of all consolidated subsidiaries. The condensed consolidated financial statements of MAALP presented herein include the accounts of MAALP and all other subsidiaries in which MAALP has a controlling financial interest. MAALP owns, directly or indirectly, 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.

We invest 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. We consolidate all VIEs for which we are the primary beneficiary and use 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.

We use the equity method of accounting for our 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 we do not have the ability to exercise control include ownership of voting interests and participatory rights of investors.

2. Earnings per Common Share of MAA

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. OP Units are included in dilutive earnings per share calculations when they are dilutive to earnings

per share. For the three months ended March 31, 2015 and 2014, MAA's 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:

(dollars and shares in thousands, except per share amounts)	Three months ended March 31,	
	2015	2014
Shares Outstanding		
Weighted average common shares - basic	75,145	74,803
Weighted average partnership units outstanding	—	(1) —
Effect of dilutive securities	—	(2) —
Weighted average common shares - diluted	75,145	74,803
Calculation of Earnings per Share - basic		
Income from continuing operations	\$64,244	\$9,819
Income from continuing operations attributable to noncontrolling interests	(3,387)	(534)
Income from continuing operations allocated to unvested restricted shares	(130)	(17)
Income from continuing operations available for common shareholders, adjusted	\$60,727	\$9,268
Income from discontinued operations	\$433	\$5,895
Income from discontinued operations attributable to noncontrolling interest	(23)	(314)
Income from discontinued operations allocated to unvested restricted shares	(1)	(10)
Income from discontinued operations available for common shareholders, adjusted	\$409	\$5,571
Weighted average common shares - basic	75,145	74,803
Earnings per share - basic	\$0.81	\$0.20
Calculation of Earnings per Share - diluted		
Income from continuing operations	\$64,244	\$9,819
Income from continuing operations attributable to noncontrolling interests	(3,387)	(534)
Income from continuing operations allocated to unvested restricted shares	(130)	(17)
Income from continuing operations available for common shareholders, adjusted	\$60,727	\$9,268
Income from discontinued operations	\$433	\$5,895
Income from discontinued operations attributable to noncontrolling interest	(23)	(314)
Income from discontinued operations allocated to unvested restricted shares	(1)	(10)
Income from discontinued operations available for common shareholders, adjusted	\$409	\$5,571
Weighted average common shares - diluted	75,145	74,803
Earnings per share - diluted	\$0.81	\$0.20

(1) For both the three months ended March 31, 2015 and 2014, 4.2 million operating partnership units and their related income are not included in the diluted earnings per share calculations as they are not dilutive.

(2) For both the three months ended March 31, 2015 and 2014, 0.1 million potentially dilutive securities and their related income are not included in the diluted earnings per share calculations as they are not dilutive.

3. Earnings per OP Unit of MAALP

Basic earnings per OP Unit is computed by dividing net income available for common unitholders by the weighted average number of units outstanding during the period. All outstanding unvested restricted share awards contain rights to non-forfeitable dividends and participate in undistributed earnings with common unitholders and, accordingly, are considered participating securities that are included in the two-class method of computing basic earnings per OP unit. Diluted earnings per OP Unit reflects the potential dilution that could occur if securities or other contracts to issue OP Units were exercised or

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converted into OP Units. A reconciliation of the numerators and denominators of the basic and diluted earnings per unit computations for the three months ended March 31, 2015 and 2014 is presented below:

(dollars and units in thousands, except per unit amounts)	Three months ended March 31,	
	2015	2014
Units Outstanding		
Weighted average OP Units - basic	79,336	79,023
Effect of dilutive securities	—	(1)
Weighted average OP Units - diluted	79,336	79,023
Calculation of Earnings per Unit - basic		
Income from continuing operations	\$64,244	\$9,819
Income from continuing operations allocated to unvested restricted shares	(130)	(17)
Income from continuing operations available for common unitholders, adjusted	\$64,114	\$9,802
Income from discontinued operations	\$433	\$5,895
Income from discontinued operations allocated to unvested restricted shares	(1)	(10)
Income from discontinued operations available for common unitholders, adjusted	\$432	\$5,885
Weighted average OP Units - basic	79,336	79,023
Earnings per unit - basic:	\$0.81	\$0.20
Calculation of Earnings per Unit - diluted		
Income from continuing operations	\$64,244	\$9,819
Income from continuing operations allocated to unvested restricted shares	(130) ⁽¹⁾	(17) ⁽¹⁾
Income from continuing operations available for common unitholders, adjusted	\$64,114	\$9,802
Income from discontinued operations	\$433	\$5,895
Income from discontinued operations allocated to unvested restricted shares	(1) ⁽¹⁾	(10) ⁽¹⁾
Income from discontinued operations available for common unitholders, adjusted	\$432	\$5,885
Weighted average OP Units - diluted	79,336	79,023
Earnings per unit - diluted:	\$0.81	\$0.20

⁽¹⁾ For both the three months ended March 31, 2015 and 2014, 0.1 million potentially dilutive securities and their related income are not included in the diluted earnings per share calculations as they are not dilutive.

4. MAA Equity

Total equity and its components for the three-month periods ended March 31, 2015 and 2014 were as follows (dollars in thousands, except per share and per unit data):

	Mid-America Apartment Communities, Inc. Shareholders					
	Common Stock Amount	Additional Paid-In Capital	Accumulated Distributions in Excess of Net Income	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest	Total Equity
EQUITY BALANCE DECEMBER 31, 2014	\$ 752	\$ 3,619,270	\$ (729,086)	\$ (412)	\$ 161,287	\$3,051,811
Net income			61,267		3,410	64,677
Other comprehensive loss - derivative instruments (cash flow hedges)				(2,041)	(114)	(2,155)
Issuance and registration of common shares	1	7				8
Shares repurchased and retired	—	(937)				(937)
Exercise of stock options	—	—				—
Shares issued in exchange for units	—	46			(46)	—
Shares issued in exchange from redeemable stock		—				—
Redeemable stock fair market value adjustment			(209)			(209)
Adjustment for noncontrolling interest ownership in operating partnership		128			(128)	—
Amortization of unearned compensation		1,462				1,462
Dividends on common stock (\$0.7700 per share)			(58,034)		—	(58,034)
Dividends on noncontrolling interest units (\$0.7700 per unit)					(3,226)	(3,226)
EQUITY BALANCE MARCH 31, 2015	\$ 753	\$ 3,619,976	\$ (726,062)	\$ (2,453)	\$ 161,183	\$3,053,397

	Mid-America Apartment Communities, Inc. Shareholders					
	Common Stock Amount	Additional Paid-In Capital	Accumulated Distributions in Excess of Net Income	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest	Total Equity
EQUITY BALANCE DECEMBER 31, 2013	\$ 747	\$ 3,599,549	\$ (653,593)	\$ 108	\$ 166,726	\$3,113,537
Net income			14,866		848	15,714
Other comprehensive income - derivative instruments (cash flow hedges)				2,583	144	2,727

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Issuance and registration of common shares	1	226			227		
Shares repurchased and retired	—	(285)		(285)	
Exercise of stock options	1	1,774			1,775		
Shares issued in exchange for units	—	744		(744)	—	
Shares issued in exchange for redeemable stock		998			998		
Redeemable stock fair market value			(631)		(631)
Adjustment for noncontrolling interest ownership in operating partnership		163		(163)	—	
Amortization of unearned compensation		948			948		
Dividends on common stock (\$0.7300 per share)			(54,792)	—	(54,792)
Dividends on noncontrolling interest units (\$0.7300 per unit)				(3,072)	(3,072)
EQUITY BALANCE MARCH 31, 2014	\$ 749	\$ 3,604,117	\$ (694,150)	\$ 2,691	\$ 163,739	\$ 3,077,146

5. MAALP Capital

Total capital and its components for the three-month periods ended March 31, 2015 and 2014 were as follows (dollars in thousands, except per unit data):

	Mid-America Apartments, L.P. Unitholders			
	Limited Partner	General Partner	Accumulated Other Comprehensive Income (Loss)	Total Partnership Capital
CAPITAL BALANCE DECEMBER 31, 2014	\$ 161,310	\$ 2,890,858	\$ (376)	\$ 3,051,792
Net income	3,410	61,267		64,677
Other comprehensive loss - derivative instruments (cash flow hedges)			(2,155)	(2,155)
Issuance of units		8		8
Units repurchased and retired		(937)		(937)
Exercise of unit options		—		—
General partner units issued in exchange for limited partner units	(46)	46		—
Units issued in exchange for redeemable units		—		—
Redeemable units fair market value adjustment		(209)		(209)
Adjustment for limited partners' capital at redemption value	(128)	128		—
Amortization of unearned compensation		1,462		1,462
Distributions (\$0.7700 per unit)	(3,226)	(58,034)		(61,260)
CAPITAL BALANCE MARCH 31, 2015	\$ 161,320	\$ 2,894,589	\$ (2,531)	\$ 3,053,378

	Mid-America Apartments, L.P. Unitholders			
	Limited Partner	General Partner	Accumulated Other Comprehensive Income (Loss)	Total Partnership Capital
CAPITAL BALANCE DECEMBER 31, 2013	\$ 166,746	\$ 2,946,598	\$ 174	\$ 3,113,518
Net income	848	14,866		15,714
Other comprehensive income - derivative instruments (cash flow hedges)			2,727	2,727
Issuance of units		227		227
Units repurchased and retired		(285)		(285)
Exercise of unit options		1,775		1,775
General partner units issued in exchange for limited partner units	(744)	744		—
Units issued in exchange for redeemable units		998		998
Redeemable units fair market value adjustment		(631)		(631)
Adjustment for limited partners capital at redemption value	(201)	201		—
Amortization of unearned compensation		948		948
Distributions (\$0.7300 per unit)	(3,072)	(54,792)		(57,864)
CAPITAL BALANCE MARCH 31, 2014	\$ 163,577	\$ 2,910,649	\$ 2,901	\$ 3,077,127

6. Borrowings

The weighted average interest rate at March 31, 2015 for the \$3.48 billion of debt outstanding was 3.7%, compared to the weighted average interest rate of 3.7% on \$3.52 billion of debt outstanding at December 31, 2014. We utilize both conventional and tax exempt debt to help finance our activities. Borrowings are made through individual property mortgages as well as company-wide secured and unsecured credit facilities. We utilize fixed rate borrowings, interest rate swaps and interest rate caps to manage our current and future interest rate risk. More details on our borrowings can be found in the schedules presented later in this Report.

At March 31, 2015, we had \$80.8 million (after considering the impact of interest rate swap and cap agreements in effect) of conventional, secured variable rate debt outstanding at an average interest rate of 0.8% and \$176.7 million of capped conventional, secured variable rate debt at an average interest rate of 0.9%. The interest rate on all other secured debt, totaling

\$1.2 billion, was hedged or fixed at an average interest rate of 4.0%. Additionally, we had \$1.9 billion of senior unsecured notes and term loans fixed at an average interest rate of 4.0% and a \$500 million variable rate credit facility with an average interest rate of 1.3% with \$179.0 million borrowed at March 31, 2015.

Credit Facilities

We maintain a total of \$360.0 million of secured credit facilities with Prudential Mortgage Capital, which are credit enhanced by Fannie Mae, or the Fannie Mae Facilities. The Fannie Mae Facilities provide for both fixed and variable rate borrowings and have Fannie Mae rate tranches with maturities from 2015 through 2018. The interest rate on the variable portion renews every 90 days and is based on the Fannie Mae discount mortgage backed security rate on the date of renewal, which, for us, has historically approximated three-month LIBOR less an average of 0.17% over the life of the Fannie Mae Facilities, plus a fee of 0.62%. Borrowings under the Fannie Mae Facilities totaled \$320.8 million at March 31, 2015, consisting of \$50.0 million under a fixed portion at a rate of 4.7%, and the remaining \$270.8 million under the variable rate portion of the Fannie Mae facilities at an average rate of 0.8%. On February 17, 2015, we paid off \$91.1 million related to a group of mortgages associated with the tax-free portion of the Fannie Mae Facilities. As part of this transaction, we recorded a \$3.1 million loss on debt extinguishment, primarily due to the write-off of unamortized financing costs associated with these mortgages.

We also maintain a \$500.0 million unsecured credit facility with fourteen banks led by KeyBank National Association (the KeyBank Facility). The KeyBank facility includes an expansion option up to \$800.0 million. The KeyBank Facility bears an interest rate of LIBOR plus a spread of 0.90% to 1.70% based on an investment grade pricing grid and is currently bearing interest at 1.28%. This credit line expires in August 2017 with two six month extension options. At March 31, 2015, we had \$496.2 million available to be borrowed under the KeyBank Facility with \$179.0 million borrowed. Approximately \$3.8 million of the KeyBank Facility is used to support letters of credit.

Each of our credit facilities is subject to various covenants and conditions on usage, and the secured facilities are subject to periodic re-evaluation of collateral. If we were to fail to satisfy a condition to borrowing, the available credit under one or more of the facilities could not be drawn, which could adversely affect our liquidity. In the event of a reduction in real estate values, the amount of credit could be reduced. Moreover, if we were to fail to make a payment or violate a covenant under a credit facility, after applicable cure periods, one or more of our lenders could declare a default, accelerate the due date for repayment of all amounts outstanding and/or foreclose on properties securing such facilities. A default on an obligation to repay outstanding debt could also create a cross default on a separate piece of debt, whereby one or more of our lenders could accelerate the due date for repayment of all amounts outstanding and/or foreclose on properties securing the related facilities. Any such event could have a material adverse effect. We believe that we were in compliance with these covenants and conditions on usage at March 31, 2015.

Secured Property Mortgages

At March 31, 2015, we had \$1.1 billion of fixed rate conventional property mortgages with an average interest rate of 4.0% and an average maturity in 2019 as well as a total of \$11.7 million of a variable rate mortgage with an embedded cap rate of 7.0% at an interest rate of 3.1% with a maturity in 2015.

On January 30, 2015, we paid off a \$15.2 million mortgage associated with the Farmington Village apartment community. We recorded a \$0.2 million loss on debt extinguishment due to paying off the mortgage prior to maturity.

Unsecured Term Loans

We also have three term loans, one each with KeyBank, Wells Fargo, and US Bank. The KeyBank term loan has a balance of \$150 million, matures in 2017, and has a variable interest rate of LIBOR plus a spread of 1.10% to 2.05%

based on our credit ratings. The Wells Fargo term loan has a balance of \$250 million and matures in 2018. The US Bank term loan has a balance of \$150 million and matures in 2020. Both the Wells Fargo and US Bank term loans have variable interest rates of LIBOR plus a spread of 0.90% to 1.90% based on our credit ratings. As of March 31, 2015, the KeyBank term loan was bearing interest at a rate of LIBOR plus 1.35%. As of March 31, 2015, the Wells Fargo and US Bank term loans were bearing interest at a rate of LIBOR plus 1.15%.

Guarantees

Of the debt mentioned above, MAA fully and unconditionally guarantees the following debt incurred by MAALP:

\$360.0 million of the Fannie Mae facilities, of which \$320.8 million has been borrowed as of March 31, 2015;
 \$500.0 million KeyBank credit facility, of which \$179.0 million has been borrowed as of March 31, 2015;
 \$33.7 million of property mortgages, all of which has been borrowed as of March 31, 2015;
 \$310.0 million of senior unsecured notes, all of which has been borrowed as of March 31, 2015; and
 \$550.0 million of term loans, all of which has been borrowed as of March 31, 2015

Borrowings Overview

The following table summarizes our outstanding debt structure as of March 31, 2015 (dollars in thousands):

	Borrowed Balance	Effective Rate	Average Contract Maturity
Fixed Rate Secured Debt			
Individual property mortgages	\$1,096,580	4.0	% 5/27/2019
FNMA conventional credit facilities	50,000	4.7	% 3/31/2017
Credit facility balances with:			
LIBOR-based interest rate swaps	25,000	4.9	% 6/1/2015
Total fixed rate secured debt	\$1,171,580	4.0	% 3/23/2019
Variable Rate Secured Debt ⁽¹⁾			
FNMA conventional credit facilities	\$245,785	0.8	% 2/18/2017
Freddie Mac mortgages	11,704	3.1	% 8/15/2015
Total variable rate secured debt	\$257,489	0.9	% 1/24/2017
Total Secured Debt	\$1,429,069	3.5	% 11/1/2018
Unsecured Debt			
Variable rate credit facility	\$179,000	1.3	% 8/7/2017
Term loans fixed with swaps	\$550,000	3.1	% 11/10/2017
Fixed rate senior bonds	1,321,424	4.5	% 12/3/2021
Total Unsecured Debt	\$2,050,424	3.8	% 6/15/2020
Total Outstanding Debt	\$3,479,493	3.7	% 6/29/2019

⁽¹⁾ Includes capped balances.

7. Derivatives and Hedging Activities

Risk Management Objective of Using Derivatives

We are exposed to certain risks arising from both our business operations and economic conditions. We principally manage our exposures to a wide variety of business and operational risks through management of our core business activities. We manage economic risks, including interest rate, liquidity and credit risk, primarily by managing the amount, sources and duration of our debt funding and the use of derivative financial instruments. Specifically, we enter into derivative financial instruments to manage exposures that arise from business activities that result in the

payment of future contractual and forecasted cash amounts, principally related to our borrowings, the value of which are determined by changing interest rates, related cash flows and other factors.

Cash Flow Hedges of Interest Rate Risk

Our objectives in using interest rate derivatives are to add stability to interest expense and to manage our exposure to interest rate movements. To accomplish these objectives, we use interest rate swaps and interest rate caps as part of our interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable amounts from a counterparty in exchange for us making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. Interest rate caps designated as cash flow hedges involve the receipt of variable amounts from a counterparty if interest rates rise above the strike rate on the contract in exchange for an up-front premium.

The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in accumulated other comprehensive income and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. During the three months ended March 31, 2015 and 2014, such derivatives were used to hedge the variable cash flows associated with existing variable-rate debt and forecasted issuances of fixed-rate debt. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. During the three months ended March 31, 2015 and 2014, we recorded ineffectiveness of \$60,000 (increase to interest expense) and \$4,000 (increase to interest expense), respectively, mainly attributable to a mismatch in the underlying indices of the derivatives and the hedged interest payments made on our variable-rate debt and due to the designation of acquired interest rate swaps with a non-zero fair value at inception.

Amounts reported in accumulated other comprehensive income related to derivatives designated as qualifying cash flow hedges will be reclassified to interest expense as interest payments are made on our variable-rate or fixed-rate debt. During the next 12 months, we estimate that an additional \$5.5 million will be reclassified to earnings as an increase to interest expense, which primarily represents the difference between our fixed interest rate swap payments and the projected variable interest rate swap payments.

As of March 31, 2015, we had the following outstanding interest rate derivatives that were designated as cash flow hedges of interest rate risk:

Interest Rate Derivative	Number of Instruments	Notional
Interest Rate Caps	6	\$165,000,000
Interest Rate Swaps	8	\$575,000,000

Tabular Disclosure of Fair Values of Derivative Instruments on the Balance Sheet

The table below presents the fair value of our derivative financial instruments as well as their classification on the Condensed Consolidated Balance Sheet as of March 31, 2015 and December 31, 2014, respectively.

Fair Values of Derivative Instruments on the Condensed Consolidated Balance Sheet as of March 31, 2015 and December 31, 2014 (dollars in thousands)

	Asset Derivatives		Liability Derivatives			
		March 31, 2015	December 31, 2014		March 31, 2015	December 31, 2014
Derivatives designated as hedging instruments	Balance Sheet Location	Fair Value	Fair Value	Balance Sheet Location Fair market value of interest rate swaps	Fair Value	Fair Value
Interest rate contracts	Other assets	\$34	\$72		\$15,007	\$13,392
Total derivatives designated as hedging instruments		\$34	\$72		\$15,007	\$13,392
Derivatives not designated as hedging instruments						
Interest rate contracts	Other assets	\$—	\$6		\$—	\$—
Total derivatives not designated as hedging instruments		\$—	\$6		\$—	\$—

Tabular Disclosure of the Effect of Derivative Instruments on the Statements of Operations

The table below presents the effect of our derivative financial instruments on the Condensed Consolidated Statements of Operations for the three months ended March 31, 2015 and 2014, respectively.

Effect of Derivative Instruments on the Condensed Consolidated Statements of Operations for the Three months ended March 31, 2015 and 2014 (dollars in thousands)

Derivatives in Cash Flow Hedging Relationships	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)		Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)		Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	
	2015	2014		2015	2014		2015	2014
Three months ended March 31,								
Interest rate contracts	\$(4,347)	\$(997)	Interest expense	\$(2,192)	\$(3,725)	Interest expense	\$(60)	\$(4)
Total derivatives in cash flow hedging relationships	\$(4,347)	\$(997)		\$(2,192)	\$(3,725)		\$(60)	\$(4)
Derivatives Not Designated as Hedging Instruments								
Three months ended March 31,								
Interest rate contracts						Interest expense	\$(3)	\$(69)
Total							\$(3)	\$(69)

Credit-Risk-Related Contingent Features

As of March 31, 2015, derivatives that were in a net liability position and subject to credit-risk-related contingent features had a termination value of \$16.0 million, which includes accrued interest but excludes any adjustment for nonperformance risk. These derivatives had a fair value, gross of asset positions, of \$15.0 million at March 31, 2015.

Certain of our derivative contracts contain a provision where we could be declared in default on our derivative obligations if repayment of the underlying indebtedness is accelerated by the lender due to our default on the indebtedness. As of March 31, 2015, we had not breached the provisions of these agreements. If we had breached these provisions, we could have been required to settle our obligations under the agreements at the termination value of \$15.8 million.

Certain of our derivative contracts are credit enhanced by Fannie Mae. These derivative contracts require that our credit enhancing party maintain credit ratings above a certain level. If our credit support providers were downgraded

below Baa1 by Moody's or BBB+ by Standard & Poor's, or S&P, we may be required to either post 100 percent collateral or settle the obligations at their termination value of \$0.2 million as of March 31, 2015. Fannie Mae is currently rated Aaa by Moody's and AA+ by S&P, and therefore, the provisions of this agreement have not been breached, and no collateral has been posted related to these agreements as of March 31, 2015.

Although our derivative contracts are subject to master netting arrangements, which serve as credit mitigants to both us and our counterparties under certain situations, we do not net our derivative fair values or any existing rights or obligations to cash collateral on the Consolidated Balance Sheet.

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The table below presents a gross presentation, the effects of offsetting, and a net presentation of our derivatives as of March 31, 2015 and December 31, 2014. The net amounts of derivative assets or liabilities can be reconciled to the Tabular Disclosure of Fair Values of Derivative Instruments above, which also provides the location that derivative assets and liabilities are presented on the Consolidated Balance Sheet (dollars in thousands):

Offsetting of Derivative Assets

As of March 31, 2015

	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Assets presented in the Statement of Financial Position	Financial Instruments	Cash Collateral Received	Net Amount
Derivatives	\$34	\$—	\$34	\$—	\$—	\$34

Offsetting of Derivative Liabilities

As of March 31, 2015

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Liabilities presented in the Statement of Financial Position	Financial Instruments	Cash Collateral Posted	Net Amount
Derivatives	\$15,007	\$—	\$15,007	\$—	\$—	\$15,007

Offsetting of Derivative Assets

As of December 31, 2014

	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Assets presented in the Statement of Financial Position	Financial Instruments	Cash Collateral Received	Net Amount
Derivatives	\$78	\$—	\$78	\$—	\$—	\$78

Offsetting of Derivative Liabilities

As of December 31, 2014

Gross Amounts Not Offset
in the Statement of
Financial Position

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Liabilities presented in the Statement of Financial Position	Financial Instruments	Cash Collateral Posted	Net Amount
Derivatives	\$13,392	\$—	\$13,392	\$—	\$—	\$13,392

Other Comprehensive Income

Our other comprehensive income consists entirely of gains and losses attributable to the effective portion of our cash flow hedges. The chart below shows the change in the balance for the three months ended March 31, 2015 and 2014 (dollars in thousands):

Changes in Accumulated Other Comprehensive Income by Component