MID AMERICA APARTMENT COMMUNITIES INC
Form 10-Q
May 02, 2014

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

FORM 10-Q

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

For the quarterly period ended March 31, 2014
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 to submit and post such files).

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 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 R	Accelerated filer o	Non-accelerated filer o	Smaller reporting company o
			(Do not check if a smaller reporting company)	
Mid-America Apartments, L.P.				
	Large accelerated filer o	Accelerated filer o	Non-accelerated filer R	Smaller reporting company o
			(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 o	NO R
Mid-America Apartments, L.P.	YES o	NO R

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 28, 2014
Common Stock, $0.01 par value	75,009,068

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

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Explanatory Note

This report combines the quarterly reports on Form 10-Q for the quarter ended March 31, 2014 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. MAA and its 94.7% owned subsidiary, MAALP, 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 the 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, 2014, MAA owned 75,009,303 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 quarterly reports on Form 10-Q of MAA and the Operating Partnership, including the notes to the 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 limited partnership 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 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.

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 3 - Earnings per Common Share of MAA and Note 4 - Earnings per OP Unit of MAALP; and Note 10 - Shareholders' Equity of MAA and Note 11 - 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.

Mid-America Apartment Communities, Inc.
Condensed Consolidated Balance Sheets
March 31, 2014 and December 31, 2013
(Unaudited)
(Dollars in thousands, except share data)

	March 31, 2014	December 31, 2013
Assets:		
Real estate assets:		
Land	$862,833	$871,316
Buildings and improvements	6,467,714	6,366,701
Furniture, fixtures and equipment	201,361	199,573
Development and capital improvements in progress	103,100	166,048
	7,635,008	7,603,638
Less accumulated depreciation	(1,191,115)	(1,124,207)
	6,443,893	6,479,431
Undeveloped land	59,191	63,850
Corporate properties, net	7,919	7,523
Investments in real estate joint ventures	2,982	5,499
Real estate assets, net	6,513,985	6,556,303
Cash and cash equivalents	121,901	89,333
Restricted cash	37,876	44,361
Deferred financing costs, net	16,304	17,424
Other assets	57,356	91,637
Goodwill	4,106	4,106
Assets held for sale	34,135	38,761
Total assets	$6,785,663	$6,841,925
Liabilities and Shareholders' Equity:		
Liabilities:		
Secured notes payable	$1,785,161	$1,790,935
Unsecured notes payable	1,677,898	1,681,783
Accounts payable	15,174	15,067
Fair market value of interest rate swaps	17,937	20,015
Accrued expenses and other liabilities	197,997	206,190
Security deposits	9,522	9,270
Liabilities associated with assets held for sale	—	78
Total liabilities	3,703,689	3,723,338
Redeemable stock	4,828	5,050
Shareholders' equity:		
Common stock, $0.01 par value per share, 100,000,000 shares authorized; 75,009,303 and 74,830,726 shares issued and outstanding at March 31, 2014 and December 31, 2013, respectively (1)	749	747
Additional paid-in capital	3,604,117	3,599,549
Accumulated distributions in excess of net income	(694,150)	(653,593)

Accumulated other comprehensive income	2,691	108
Total MAA shareholders' equity	2,913,407	2,946,811
Noncontrolling interest	163,739	166,726
Total equity	3,077,146	3,113,537
Total liabilities and equity	$6,785,663	$6,841,925

(1) 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, 2014 and December 31, 2013 are 77,312 and 83,139, 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, 2014 and 2013
(Unaudited)
(Dollars in thousands, except per share data)

	Three months ended March 31, 2014	2013
Operating revenues:		
Rental revenues	$220,988	$117,705
Other property revenues	22,402	10,038
Total property revenues	243,390	127,743
Management fee income	97	177
Total operating revenues	243,487	127,920
Property operating expenses:		
Personnel	24,909	13,981
Building repairs and maintenance	6,399	3,129
Real estate taxes and insurance	31,131	15,488
Utilities	13,478	6,565
Landscaping	5,408	2,866
Other operating	16,038	8,492
Depreciation and amortization	90,013	32,195
Total property operating expenses	187,376	82,716
Acquisition expense	11	10
Property management expenses	7,011	5,108
General and administrative expenses	4,342	3,239
Merger related expenses	2,076	—
Integration related expenses	3,842	—
Income from continuing operations before non-operating items	38,829	36,847
Interest and other non-property income	160	47
Interest expense	(30,676)	(15,545)
Loss on debt extinguishment/modification	—	(169)
Amortization of deferred financing costs	(1,311)	(804)
Net casualty (loss) gain after insurance and other settlement proceeds	(10)	16
Income before income tax expense	6,992	20,392
Income tax expense	(270)	(223)
Income from continuing operations before (loss) gain from real estate joint ventures	6,722	20,169
(Loss) gain from real estate joint ventures	(24)	54
Income from continuing operations	6,698	20,223
Discontinued operations:		
Income from discontinued operations before gain on sale	416	1,782
Net casualty loss after insurance and other settlement proceeds on discontinued operations	(2)	—
Gain on sale of discontinued operations	5,481	—
Income before gain on sale of properties	12,593	22,005
Gain on sale of depreciable assets excluded from discontinued operations	2,564	—
Gain on sale of non-depreciable assets	557	—
Consolidated net income	15,714	22,005
Net income attributable to noncontrolling interests	848	825
Net income available for MAA common shareholders	$14,866	$21,180

Earnings per common share - basic:		
Income from continuing operations available for common shareholders	$0.12	$0.46
Discontinued property operations	0.08	0.04
Net income available for common shareholders	$0.20	$0.50
Earnings per common share - diluted:		
Income from continuing operations available for common shareholders	$0.12	$0.46
Discontinued property operations	0.08	0.04
Net income available for common shareholders	$0.20	$0.50
Dividends declared per common share	$0.7300	$0.6950

See accompanying notes to condensed consolidated financial statements.

Mid-America Apartment Communities, Inc.
Condensed Consolidated Statements of Comprehensive Income
Three months ended March 31, 2014 and 2013
(Unaudited)
(Dollars in thousands)

	Three months ended March 31,	
	2014	2013
Consolidated net income	$15,714	$22,005
Other comprehensive income:		
Unrealized losses from the effective portion of derivative instruments	(997)	(179)
Reclassification adjustment for losses included in net income for the effective portion of derivative instruments	3,725	4,545
Total comprehensive income	18,442	26,371
Less: comprehensive income attributable to noncontrolling interests	(992)	(1,003)
Comprehensive income attributable to MAA	$17,450	$25,368

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, 2014 and 2013
(Unaudited)
(Dollars in thousands)

	Three months ended March 31, 2014	2013
Cash flows from operating activities:		
Consolidated net income	$15,714	$22,005
Adjustments to reconcile net income to net cash provided by operating activities:		
Retail revenue accretion	(6)	(10)
Depreciation and amortization	91,469	34,237
Stock compensation expense	948	630
Exercise of stock options	1,775	—
Redeemable stock issued	145	159
Amortization of debt premium	(7,402)	(225)
Loss (gain) from investments in real estate joint ventures	24	(54)
Loss on debt extinguishment	—	169
Derivative interest expense	427	267
Gain on sale of non-depreciable assets	(557)	—
Gain on sale of depreciable assets	(2,564)	—
Gain on sale of discontinued operations	(5,481)	—
Net casualty loss (gain) and other settlement proceeds	12	(16)
Changes in assets and liabilities:		
Restricted cash	16,783	159
Other assets	5,664	(3,466)
Accounts payable	106	1,086
Accrued expenses and other	(3,465)	(12,985)
Security deposits	240	161
Net cash provided by operating activities	113,832	42,117
Cash flows from investing activities:		
Purchases of real estate and other assets	(49,450)	(32,561)
Normal capital improvements	(10,502)	(8,701)
Construction capital and other improvements	(1,843)	(576)
Renovations to existing real estate assets	(1,356)	(2,187)
Development	(16,279)	(12,240)
Distributions from real estate joint ventures	8,865	4,964
Contributions to real estate joint ventures	—	(16)
Proceeds from disposition of real estate assets	93,127	76
Funding of escrow for future acquisitions	(10,298)	—
Net cash provided by (used in) investing activities	12,264	(51,241)
Cash flows from financing activities:		
Net change in credit lines	(17,936)	19,000
Proceeds from notes payable	344	—
Principal payments on notes payable	(17,986)	(1,370)
Payment of deferred financing costs	(145)	(120)
Repurchase of common stock	(285)	(673)
Proceeds from issuances of common shares	227	22,058

Distributions to noncontrolling interests	(3,086)	(1,204)
Dividends paid on common shares	(54,661)	(29,418)
Net cash (used in) provided by financing activities	(93,528)	8,273
Net increase (decrease) in cash and cash equivalents	32,568	(851)
Cash and cash equivalents, beginning of period	89,333	9,075
Cash and cash equivalents, end of period	$121,901	$8,224
Supplemental disclosure of cash flow information:		
Interest paid	$30,408	$16,400
Supplemental disclosure of noncash investing and financing activities:		
Conversion of units to shares of common stock	$744	$443
Accrued construction in progress	$9,971	$7,126
Interest capitalized	$513	$448
Marked-to-market adjustment on derivative instruments	$2,300	$4,096
Fair value adjustment on debt assumed	$1,651	$—
Loan assumption	$31,692	$—

See accompanying notes to condensed consolidated financial statements.

Mid-America Apartments, L.P.
Condensed Consolidated Balance Sheets
March 31, 2014 and December 31, 2013
(Dollars in thousands, except unit data)

	March 31, 2014	December 31, 2013
Assets:		
Real estate assets:		
Land	$862,833	$871,316
Buildings and improvements	6,467,714	6,366,701
Furniture, fixtures and equipment	201,361	199,573
Development and capital improvements in progress	103,100	166,048
	7,635,008	7,603,638
Less accumulated depreciation	(1,191,115)	(1,124,207)
	6,443,893	6,479,431
Undeveloped land	59,191	63,850
Corporate properties, net	7,919	7,523
Investments in real estate joint ventures	2,982	5,499
Real estate assets, net	6,513,985	6,556,303
Cash and cash equivalents	121,901	89,333
Restricted cash	37,876	44,361
Deferred financing costs, net	16,304	17,424
Other assets	57,356	91,637
Goodwill	4,106	4,106
Assets held for sale	34,135	38,761
Total assets	$6,785,663	$6,841,925
Liabilities and Capital:		
Liabilities:		
Secured notes payable	$1,785,161	$1,790,935
Unsecured notes payable	1,677,898	1,681,783
Accounts payable	15,174	15,067
Fair market value of interest rate swaps	17,937	20,015
Accrued expenses and other liabilities	197,997	206,190
Security deposits	9,522	9,270
Due to general partner	19	19
Liabilities associated with assets held for sale	—	78
Total liabilities	3,703,708	3,723,357
Redeemable units	4,828	5,050
Capital:		
General partner: 75,009,303 OP Units outstanding at March 31, 2014 and 74,830,726 OP Units outstanding at December 31, 2013 (1)	2,910,649	2,946,598
Limited partners: 4,208,526 OP Units outstanding at March 31, 2014 and 4,227,384 OP Units outstanding at December 31, 2013 (1)	163,577	166,746

Accumulated other comprehensive income	2,901	174
Total capital	3,077,127	3,113,518
Total liabilities and capital	$6,785,663	$6,841,925

(1) Number of units outstanding represent total OP Units regardless of classification on the consolidated balance sheet. The number of units classified as redeemable units on the consolidated balance sheet at March 31, 2014 and December 31, 2013 are 77,312 and 83,139, respectively.

See accompanying notes to condensed consolidated financial statements.

Mid-America Apartments, L.P.
Condensed Consolidated Statements of Operations
Three months ended March 31, 2014 and 2013
(Unaudited)
(Dollars in thousands, except per unit data)

	Three months ended March 31,	
	2014	2013
Operating revenues:		
Rental revenues	$220,988	$117,705
Other property revenues	22,402	10,038
Total property revenues	243,390	127,743
Management fee income	97	177
Total operating revenues	243,487	127,920
Property operating expenses:		
Personnel	24,909	13,981
Building repairs and maintenance	6,399	3,129
Real estate taxes and insurance	31,131	15,488
Utilities	13,478	6,565
Landscaping	5,408	2,866
Other operating	16,038	8,492
Depreciation and amortization	90,013	32,195
Total property operating expenses	187,376	82,716
Acquisition expense	11	10
Property management expenses	7,011	5,108
General and administrative expenses	4,342	3,239
Merger related expenses	2,076	—
Integration related expenses	3,842	—
Income from continuing operations before non-operating items	38,829	36,847
Interest and other non-property income	160	47
Interest expense	(30,676)	(15,545)
Loss on debt extinguishment/modification	—	(169)
Amortization of deferred financing costs	(1,311)	(804)
Net casualty (loss) gain after insurance and other settlement proceeds	(10)	16
Income before income tax expense	6,992	20,392
Income tax expense	(270)	(223)
Income from continuing operations before (loss) gain from real estate joint ventures	6,722	20,169
(Loss) gain from real estate joint ventures	(24)	54
Income from continuing operations	6,698	20,223
Discontinued operations:		
Income from discontinued operations before gain on sale	416	1,570
Net casualty loss after insurance and other settlement proceeds on discontinued operations	(2)	—
Gain on sale of discontinued operations	5,481	—
Income before gain on sale of properties	12,593	21,793
Gain on sale of depreciable assets excluded from discontinued operations	2,564	—
Gain on sale of non-depreciable assets	557	—
Net income available for Mid-America Apartments, L.P. common unitholders	$15,714	$21,793

Earnings per common unit - basic:

Income from continuing operations available for common unitholders	$0.12	$0.46
Income from discontinued operations available for common unitholders	0.08	0.03
Net income available for common unitholders	$0.20	$0.49
Earnings per common unit - diluted:		
Income from continuing operations available for common unitholders	$0.12	$0.46
Income from discontinued operations available for common unitholders	0.08	0.03
Net income available for common unitholders	$0.20	$0.49
Distributions declared per common unit	$0.7300	$0.6950

See accompanying notes to condensed consolidated financial statements.

Mid-America Apartments, L.P.
Condensed Consolidated Statements of Comprehensive Income
Three months ended March 31, 2014 and 2013
(Unaudited)
(Dollars in thousands)

	Three months ended March 31,	
	2014	2013
Consolidated net income	$15,714	$21,793
Other comprehensive income:		
Unrealized losses from the effective portion of derivative instruments	(997)	(179)
Reclassification adjustment for losses included in net income for the effective portion of derivative instruments	3,725	4,545
Comprehensive income attributable to Mid-America Apartments, L.P.	$18,442	$26,159

See accompanying notes to condensed consolidated financial statements.

Mid-America Apartments, L.P.
Condensed Consolidated Statements of Cash Flows
Three months ended March 31, 2014 and 2013
(Unaudited)
(Dollars in thousands)

	Three months ended March 31, 2014	2013
Cash flows from operating activities:		
Consolidated net income	$15,714	$21,793
Adjustments to reconcile net income to net cash provided by operating activities:		
Retail revenue accretion	(6)	(10)
Depreciation and amortization	91,469	34,095
Stock compensation expense	948	630
Exercise of unit options	1,775	—
Redeemable units issued	145	159
Amortization of debt premium	(7,402)	(225)
Loss (gain) from investments in real estate joint ventures	24	(54)
Loss on debt extinguishment	—	169
Derivative interest expense	427	261
Gain on sale of non-depreciable assets	(557)	—
Gain on sale of depreciable assets	(2,564)	—
Gain on sale of discontinued operations	(5,481)	—
Net casualty loss (gain) and other settlement proceeds	12	(16)
Changes in assets and liabilities:		
Restricted cash	16,783	160
Other assets	5,664	(2,339)
Accounts payable	106	1,097
Accrued expenses and other	(3,465)	(14,837)
Security deposits	240	160
Net cash provided by operating activities	113,832	41,043
Cash flows from investing activities:		
Purchases of real estate and other assets	(49,450)	(32,561)
Normal capital improvements	(10,502)	(8,667)
Construction capital and other improvements	(1,843)	(576)
Renovations to existing real estate assets	(1,356)	(2,187)
Development	(16,279)	(12,240)
Distributions from real estate joint ventures	8,865	4,964
Contributions to real estate joint ventures	—	(16)
Proceeds from disposition of real estate assets	93,127	76
Funding of escrow for future acquisitions	(10,298)	—
Net cash provided by (used in) investing activities	12,264	(51,207)
Cash flows from financing activities:		
Advances from general partner	—	1,180
Net change in credit lines	(17,936)	19,000
Proceeds from notes payable	344	—
Principal payments on notes payable	(17,986)	(1,370)
Payment of deferred financing costs	(145)	(120)
Repurchase of common units	(285)	(673)

Proceeds from issuances of common units	227	22,058
Distributions paid on common units	(57,747)	(30,622)
Net cash (used in) provided by financing activities	(93,528)	9,453
Net increase (decrease) in cash and cash equivalents	32,568	(711)
Cash and cash equivalents, beginning of period	89,333	8,934
Cash and cash equivalents, end of period	$121,901	$8,223
Supplemental disclosure of cash flow information:		
Interest paid	$30,408	$16,400
Supplemental disclosure of noncash investing and financing activities:		
Accrued construction in progress	$9,971	$7,126
Interest capitalized	$513	$448
Marked-to-market adjustment on derivative instruments	$2,300	$4,096
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, 2014 and 2013
(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 Mid-America Apartments, L.P. Unless the context otherwise requires, all references to “MAA” refers 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, 2014, MAA owned 75,009,303 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 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 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. 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.

Organization and Formation of Mid-America Apartment Communities, Inc.

On October 1, 2013, MAA acquired Colonial Properties Trust, or Colonial, when Colonial was merged with and into MAA, with MAA being the surviving entity of the merger, pursuant to an agreement and plan of merger, which is referred to as the parent merger and Martha Merger Sub, LP, or OP Merger Sub, a wholly-owned indirect subsidiary of MAALP, merged with and into Colonial Realty Limited Partnership, or Colonial LP, with Colonial LP being the surviving entity of the merger and becoming a wholly-owned indirect subsidiary of MAALP, which is referred to as the partnership merger. Under the terms of the merger agreement, each Colonial common share was converted into the right to receive 0.36 of a newly issued share of MAA common stock. In addition, each limited partner interest in Colonial LP designated as a “Class A Unit” and a “Partnership Unit” under the limited partnership agreement of Colonial LP, which we refer to in this filing as Colonial LP units, issued and outstanding immediately prior to the effectiveness of the partnership merger was converted into common units in MAALP at the 0.36 conversion rate. The net assets and results of operations of Colonial are included in our consolidated financial statements from the closing date, October 1, 2013 going forward.

As of March 31, 2014, we owned and operated 269 apartment communities comprising 82,730 apartments located in 14 states principally through the Operating Partnership and we also owned an interest in the following unconsolidated real estate joint ventures:

	Percent Owned	Number of Units/Square Feet	
Multifamily:			
Mid-America Multifamily Fund II, LLC (Fund II)	33.33%	594	(1)
Belterra	10.00%	288	(2)
McKinney	25.00%	—	(3)
Commercial:			
Land Title Building	33.30%	29,971	

(1) This joint venture is comprised of two apartment communities.
(2) This joint venture is not managed by MAA and is not included in our property totals.
(3) This joint venture consists of undeveloped land.

As of March 31, 2014, we had four development communities under construction totaling 999 units, with 305 units completed. Total expected costs for the development projects are $146.0 million, of which $98.7 million has been incurred to date. We expect to complete construction on all four projects by the first quarter of 2015. Four of our multifamily properties include retail components with approximately 100,000 square feet of gross leasable area. We also have three wholly owned commercial properties, which we acquired through our merger with Colonial with approximately 287,000 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.

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 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 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. Business Combinations

Merger of MAA and Colonial

On October 1, 2013, we completed our merger with Colonial. Pursuant to the merger agreement, Martha Merger Sub, LP, or OP Merger Sub, a wholly-owned indirect subsidiary of our Operating Partnership, merged with and into Colonial LP, with Colonial LP being the surviving entity of the merger and becoming a wholly-owned indirect subsidiary of our Operating Partnership, which is referred to as the partnership merger. The partnership merger was part of the transactions contemplated by the agreement and plan of merger entered into on June 3, 2013 among MAA, our Operating Partnership, OP Merger Sub, Colonial, and Colonial LP pursuant to which MAA and Colonial combined through a merger of Colonial with and into MAA, with MAA surviving the merger, which is referred to as the parent merger. Under the terms of the merger agreement, each Colonial common share was converted into the right to receive 0.36 of a newly issued share of MAA common stock. In addition, each limited partner interest in Colonial LP designated as a “Class A Unit” and a “Partnership Unit” under the limited partnership agreement of Colonial LP, which we refer to in this filing as Colonial LP units, issued and outstanding immediately prior to the effectiveness of the partnership merger was converted into common units in our Operating Partnership at the 0.36 conversion rate.

As part of the merger, we acquired 115 wholly owned apartment communities encompassing 34,370 units principally located in the Southeast and Southwest regions of the United States. In addition to the apartment communities, we also acquired four commercial properties totaling approximately 806,000 square feet. The additions have caused us to nearly double in size as a result of the merger. The net assets and results of operations of Colonial are included in our consolidated financial statements from the closing date, October 1, 2013, going forward.

The total purchase price of approximately $2.2 billion was determined based on the number of Colonial shares of common stock and Colonial OP Units outstanding, as of October 1, 2013. In all cases in which MAA’s stock price was a determining factor in arriving at final consideration for the merger, the stock price used to determine the purchase price was the opening price of MAA’s common stock on October 1, 2013 ($62.56 per share). The total purchase price includes $7.3 million of other consideration, a majority of which relates to assumed stock compensation plans. As a result of the Merger, we issued approximately 31.9 million shares of MAA common stock and approximately 2.6 million OP units.

The acquisition has been accounted for using the acquisition method of accounting in accordance with Accounting Standards Codification, or ASC, 805, Business Combinations, which requires, among other things, that the assets acquired and liabilities assumed be recognized at their acquisition date fair values.

For larger, portfolio style acquisitions, like the Merger, management engages a third party valuation specialist to assist with the fair value assessment, which includes an allocation of the purchase price. Similar to management's methods, the third party uses cash flow analysis as well as an income approach and a market approach to determine the fair value of assets acquired. The third party uses stabilized NOI and a market specific capitalization and discount rates. Management reviews the inputs used by the third party specialist as well as the allocation of the purchase price provided by the third party to ensure reasonableness and that the procedures are performed in accordance with management's policy. The allocation of the purchase price is based on management’s assessment, which may differ as more information becomes available. Subsequent adjustments made to the purchase price allocation, if any, are made within the allocation period, which typically does not exceed one year.

The allocation of the purchase price described above requires a significant amount of judgment. The following purchase price allocation was based on our valuation, estimates and assumptions of the acquisition date fair value of the tangible and intangible assets acquired and liabilities assumed. While the current allocation of the purchase price is substantially complete, the valuation of the real estate properties and certain other assets and liabilities is in the process of being finalized. We do not expect future revisions, if any, to have a significant impact on our financial position or results of operations.

The purchase price was allocated as follows (in thousands):

Land	$469,396
Buildings and improvements	3,075,642
Furniture, fixtures and equipment	96,377
Development and capital improvements in progress	113,368
Undeveloped land	58,400
Properties held for sale	33,300
Lease intangible assets	57,946
Cash and cash equivalents	63,454
Restricted cash	6,825
Deferred costs and other assets, excluding lease intangible assets	87,713
Total assets acquired	4,062,421
Notes payable	(1,759,550)
Fair market value of interest rate swaps	(14,961)
Accounts payable, accrued expenses, and other liabilities	(125,034)
Total liabilities assumed, including debt	(1,899,545)
Total purchase price	$2,162,876

We incurred merger and integration related expenses of $5.9 million for the three months ended March 31, 2014. These amounts were expensed as incurred and are included in the Consolidated Statement of Operations in the items titled Merger related expenses and Integration related expenses.

The allocation of fair values of the assets acquired and liabilities assumed has changed from the allocation reported in Item 8. Financial Statements and Supplementary Data - Notes to Consolidated Financial Statements, Note 2 of our Annual Report on Form 10-K for the year ended December 31, 2013, filed with the SEC on February 21, 2014. The changes were based on information concerning the subject assets and liabilities that was not yet available at the time of the 10-K filing. These adjustments had no material impact on the results of operations.

3. 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. Operating partnership units are included in dilutive earnings per share calculations when they are dilutive to earnings per share. For the three months ended March 31, 2014 and 2013, 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, 2014	2013
Shares Outstanding		
Weighted average common shares - basic	74,803	42,354
Weighted average partnership units outstanding	— [1]	1,715
Effect of dilutive securities	— [1]	80
Weighted average common shares - diluted	74,803	44,149
Calculation of Earnings per Share - basic		
Income from continuing operations	$6,698	$20,223
Gain on sale of depreciable assets excluded from discontinued operations	2,564	—
Gain on sale of non-depreciable assets	557	—
Income from continuing operations attributable to noncontrolling interests	(534)	(760)
Income from continuing operations allocated to unvested restricted shares	(17)	(18)
Income from continuing operations available for common shareholders, adjusted	$9,268	$19,445
Income from discontinued operations	$5,895	$1,782
Income from discontinued operations attributable to noncontrolling interest	(314)	(65)
Income from discontinued operations allocated to unvested restricted shares	(10)	(2)
Income from discontinued operations available for common shareholders, adjusted	$5,571	$1,715
Weighted average common shares - basic	74,803	42,354
Earnings per share - basic	$0.20	$0.50
Calculation of Earnings per Share - diluted		
Income from continuing operations	$6,698	$20,223
Gain on sale of depreciable assets	2,564	—
Gain on sale of non-depreciable assets	557	—
Income from continuing operations attributable to noncontrolling interests	(534) [1]	—
Income from continuing operations allocated to unvested restricted shares	(17) [1]	—
Income from continuing operations available for common shareholders, adjusted	$9,268	$20,223
Income from discontinued operations	$5,895	$1,782
Income from discontinued operations attributable to noncontrolling interest	(314) [1]	—
Income from discontinued operations allocated to unvested restricted shares	(10) [1]	—
Income from discontinued operations available for common shareholders, adjusted	$5,571	$1,782
Weighted average common shares - diluted	74,803	44,149
Earnings per share - diluted	$0.20	$0.50

[1] Operating partnership units, other dilutive securities, and the related income with each are not included in the diluted earnings per share calculations as they were not dilutive.

4. 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 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, 2014 and 2013 is presented below:

(dollars and units in thousands, except per unit amounts)	Three months ended March 31, 2014	2013
Units Outstanding		
Weighted average common units - basic	79,023	44,109
Effect of dilutive securities	— [1]	80
Weighted average common units - diluted	79,023	44,189
Calculation of Earnings per Unit - basic		
Income from continuing operations	$6,698	$20,223
Gain on sale of depreciable assets excluded from discontinued operations	2,564	—
Gain on sale of non-depreciable assets	557	—
Income from continuing operations allocated to unvested restricted shares	(17)	(18)
Income from continuing operations available for common unitholders, adjusted	$9,802	$20,205
Income from discontinued operations	$5,895	$1,570
Income from discontinued operations allocated to unvested restricted shares	(10)	(1)
Income from discontinued operations available for common unitholders, adjusted	$5,885	$1,569
Weighted average common units - basic	79,023	44,109
Earnings per unit - basic:	$0.20	$0.49
Calculation of Earnings per Unit - diluted		
Income from continuing operations	$6,698	$20,223
Gain on sale of depreciable assets	2,564	—
Gain on sale of non-depreciable assets	557	—
Income from continuing operations allocated to unvested restricted shares	(17) [1]	—
Income from continuing operations available for common unitholders, adjusted	$9,802	$20,223
Income from discontinued operations	$5,895	$1,570
Income from discontinued operations allocated to unvested restricted shares	(10) [1]	—
Income from discontinued operations available for common unitholders, adjusted	$5,885	$1,570
Weighted average common units - diluted	79,023	44,189
Earnings per unit - diluted:	$0.20	$0.49

[1] Dilutive securities and the related income are not included in the diluted earnings per unit calculations as they were not dilutive.

5. MAA Equity

Total equity and its components for the three-month periods ended March 31, 2014 and 2013 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, 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
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 from 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

	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, 2012	$ 422	$ 1,542,999	$ (603,315)	$ (26,054)	$ 31,058	$ 945,110
Net income			21,180		825	22,005
Other comprehensive income - derivative instruments (cash flow hedges)				4,185	178	4,363

Issuance and registration of common shares	3	22,055				22,058
Shares repurchased and retired	—	(673)				(673)
Shares issued in exchange for units	1	442			(443)	—
Redeemable stock fair market value			(319)			(319)
Adjustment for noncontrolling interest ownership in operating partnership		302			(302)	—
Amortization of unearned compensation		630				630
Dividends on common stock ($0.6950 per share)			(29,674)		—	(29,674)
Dividends on noncontrolling interest units ($0.6950 per unit)					(1,187)	(1,187)
EQUITY BALANCE MARCH 31, 2013	$ 426	$ 1,565,755	$ (612,128)	$ (21,869)	$ 30,129	$962,313

6. MAALP Capital

Total capital and its components for the three-month periods ended March 31, 2014 and 2013 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, 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 from 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

	Mid-America Apartments, L.P. Unitholders			
	Limited Partner	General Partner	Accumulated Other Comprehensive Income (Loss)	Total Partnership Capital
CAPITAL BALANCE DECEMBER 31, 2012	$38,154	$927,734	$ (26,881)	$ 939,007
Net income	855	20,938		21,793
Other comprehensive income - derivative instruments (cash flow hedges)			4,357	4,357
Issuance of units		22,057		22,057
Units repurchased and retired		(673)		(673)
General partner units issued in exchange for limited partner units	(443)	443		—
Redeemable units fair market value adjustment		(319)		(319)
Adjustment for limited partners capital at redemption value	2,812	(1,450)		1,362
Amortization of unearned compensation		630		630
Distributions ($0.6950 per unit)	(1,187)	(29,674)		(30,861)
CAPITAL BALANCE MARCH 31, 2013	$40,191	$939,686	$ (22,524)	$ 957,353

7. Borrowings

On March 31, 2014 and December 31, 2013, we had total indebtedness of approximately $3.46 billion and $3.47 billion, respectively. Our indebtedness as of March 31, 2014 consisted of both conventional and tax exempt debt. Borrowings were made through individual property mortgages as well as company-wide credit facilities. We utilize both secured and unsecured debt.

On August 7, 2013, our Operating Partnership entered into a $500 million unsecured revolving credit facility agreement with KeyBank National Association and thirteen other banks. This agreement amends our Operating Partnership's previous unsecured credit facility with KeyBank. Interest is paid using an investment grade pricing grid using LIBOR plus a spread of 0.90% to 1.70%. As of March 31, 2014, we had no borrowings under this facility.

On October 16, 2013, MAALP issued $350 million in aggregate principal amount of notes, maturing on October 15, 2023 with an interest rate of 4.3% per annum (the "2023 Notes"). The purchase price paid by the initial purchasers was 99.047% of the principal amount. The 2023 Notes are general unsecured senior obligations of MAALP and rank equally in right of payment with all other senior unsecured indebtedness of MAALP. Interest on the 2023 Notes is payable on April 15 and October 15 of each year, beginning on April 15, 2014. The net proceeds from the offering after deducting the original issue discount of approximately $3.3 million and underwriting commissions and expenses of approximately $2.3 million was approximately $344.4 million. The 2023 Notes have been reflected net of discount in the consolidated balance sheet. The Company entered into three forward swaps totaling $150 million, which resulted in a total effective interest rate of 4.15%.

On December 13, 2013, MAALP completed a series of exchange offers (the “Exchange Offers”) pursuant to which it exchanged $154,235,000 aggregate principal amount of 6.25% Senior Notes due 2014, $169,161,000 aggregate principal amount of 5.50% Senior Notes due 2015 and $68,130,000 aggregate principal amount of 6.05% Senior Notes due 2016 (collectively, the “Existing Notes”) issued by Colonial Realty Limited Partnership, a Delaware limited partnership and wholly owned subsidiary of MAALP, for $154,235,000 aggregate principal amount of MAALP’s new 6.25% Senior Notes due 2014 (the “2014 Notes”), $169,112,000 aggregate principal amount of MAALP’s new 5.50% Senior Notes due 2015 (the “2015 Notes”) and $68,130,000 aggregate principal amount of MAALP’s new 6.05% Senior Notes due 2016 (the “2016 Notes” and together with the 2014 Notes and the 2015 Notes, the “Exchange Notes”), plus approximately $975,000 in cash.

The Exchange Notes are senior unsecured obligations of MAALP and will rank equally in right of payment with all of MAALP’s other existing and future senior unsecured indebtedness. Interest on the 2014 Notes will accrue from, and including, December 15, 2013 and will be payable on June 15, 2014, which will also be the maturity date for the 2014 Notes. Interest on the 2015 Notes will accrue from, and including, October 1, 2013 and will be payable semiannually on April 1 and October 1 of each year, beginning on April 1, 2014. Interest on the 2016 Notes accrued from, and including, September 1, 2013 and was paid on March 1, 2014. Interest payments will be payable semiannually on March 1 and September 1 of each year, beginning on March 1, 2014. In certain circumstances described below MAALP may be required to pay additional interest on the Exchange Notes.

The Indenture under which the 2023 notes were issued and the Indentures contain certain covenants that, among other things, limit the ability of MAALP and its subsidiaries to incur secured and unsecured indebtedness if not in pro forma compliance with the following negative covenants: (1) total leverage not to exceed 60% of adjusted total assets, (2) secured leverage not to exceed 40% of adjusted total assets and (3) a fixed charge coverage ratio of at least 1.50 to 1. In addition, MAALP is required to maintain at all times unencumbered consolidated total assets of not less than 150% of the aggregate principal amount of its outstanding unsecured debt. At March 31, 2014, MAALP was in compliance with each of these financial covenants.

All of the Existing Notes tendered into the Exchange Offers were cancelled in connection with the settlement of the Exchange Offers. In connection with the issuance and sale of the Exchange Notes, MAALP also entered into three separate registration rights agreements, each dated as of December 13, 2013, and each with J.P. Morgan Securities LLC, the dealer manager in the Exchange Offers (the “Registration Rights Agreements”). Under the Registration Rights Agreements, MAALP agreed to use commercially reasonable efforts to complete exchange offers registered under the Securities Act pursuant to which MAALP will offer to issue new exchange notes containing terms substantially similar in all material respects to the Exchange Notes (except that the exchange notes will not contain terms with respect to transfer restrictions or any increase in annual interest rate) in exchange for the Exchange Notes. MAALP also agreed, if it determines that a registered exchange offer is not available or specified other circumstances occur, to use commercially reasonable efforts to file and have become effective a shelf registration statement relating to resales of the Exchange Notes. MAALP will be obligated to pay additional interest of up to 0.50% per annum on the Exchange Notes if it does not complete the exchange offers within 270 days after the issue date of the Exchange Notes and in other specified circumstances.

As of March 31, 2014, approximately 18% of our outstanding debt was borrowed through secured credit facility relationships with Prudential Mortgage Capital, which are credit enhanced by the Federal National Mortgage Association, or FNMA, and Financial Federal, which are credit enhanced by Federal Home Loan Mortgage Corporation, or Freddie Mac.

We utilize interest rate swaps and interest rate caps to help manage our current and future interest rate risk and entered into 14 interest rate swaps and 7 interest rate caps as of March 31, 2014, representing notional amounts totaling $717.0 million and $180.0 million, respectively. We also held 15 non-designated interest rate caps with notional amounts totaling $134.3 million as of March 31, 2014.

The following table summarizes our outstanding debt structure as of March 31, 2014 (dollars in thousands):

	Borrowed Balance	Effective Rate	Contract Maturity
Fixed Rate Secured Debt			
Individual property mortgages	$1,124,500	4.0 %	4/11/2019
FNMA conventional credit facilities	50,000	4.7 %	3/31/2017
Credit facility balances with:			
LIBOR-based interest rate swaps	167,000	5.2 %	10/27/2014
Total fixed rate secured debt	$1,341,500	4.2 %	8/24/2018
Variable Rate Secured Debt [1]			
FNMA conventional credit facilities	$171,785	0.7 %	1/31/2017
FNMA tax-free credit facilities	88,370	0.9 %	7/23/2031
Freddie Mac credit facilities	156,247	0.7 %	7/1/2014
Freddie Mac mortgage	27,259	3.3 %	10/31/2015
Total variable rate secured debt	$443,661	0.9 %	12/24/2018
Total Secured Debt	$1,785,161	3.4 %	9/23/2018
Unsecured Debt			
Term loan fixed with swaps	550,000	3.1 %	11/10/2017
Fixed rate senior bonds	1,127,898	5.0 %	9/23/2019
Total Unsecured Debt	$1,677,898	4.3 %	2/11/2019
Total Outstanding Debt	$3,463,059	3.8 %	6/24/2018

[1] Includes capped balances.

8. 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 this objective, 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, 2014 and 2013, 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, 2014 and 2013, we recorded ineffectiveness of $4,000 (increase to interest expense) and $4,000 (decrease 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.

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 $9.7 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, 2014, 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	7	$180,000,000
Interest Rate Swaps (1)	14	$717,000,000

(1) Excludes four forward rate swaps totaling $200 million where the debt has not yet been issued. These swaps are not included in our debt discussion in MD&A or Item 1. Financial Statements – Notes to Consolidated Financial Statements, Note 7.

Non-Designated Hedges

Derivatives not designated as hedges are not speculative and are used to manage the Company's exposure to interest rate movements and other identified risks but do not meet the strict hedge accounting requirements of FASB ASC 815, Derivatives and Hedging. Changes in the fair value of derivatives not designated in hedging relationships are recorded directly in earnings and resulted in a loss of $69,000 for the three months ended March 31, 2014 and a loss of $13,000 for the three months ended March 31, 2013.

As of March 31, 2014, we had the following outstanding interest rate derivatives that were not designated as hedges:

Interest Rate Derivative	Number of Instruments	Notional
Interest rate caps	15	$134,326,000

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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 Consolidated Balance Sheet as of March 31, 2014 and December 31, 2013, respectively.

Fair Values of Derivative Instruments on the Consolidated Balance Sheet as of March 31, 2014 and December 31, 2013 (dollars in thousands)

	Asset Derivatives			Liability Derivatives		
		March 31, 2014	December 31, 2013		March 31, 2014	December 31, 2013
Derivatives designated as hedging instruments	Balance Sheet Location	Fair Value	Fair Value	Balance Sheet Location	Fair Value	Fair Value
Interest rate contracts	Other assets	$441	$396	Fair market value of interest rate swaps	$17,937	$20,015
Total derivatives designated as hedging instruments		$441	$396		$17,937	$20,015
Derivatives not designated as hedging instruments						
Interest rate contracts	Other assets	$83	$49		$—	$—
Total derivatives not designated as hedging instruments		$83	$49		$—	$—

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 Consolidated Statements of Operations for the three months ended March 31, 2014 and 2013, respectively.

Effect of Derivative Instruments on the Consolidated Statements of Operations for the Three months ended March 31, 2014 and 2013 (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)	
Three months ended March 31,	2014	2013		2014	2013		2014	2013