MID AMERICA APARTMENT COMMUNITIES INC.
Form 10-Q
August 02, 2018

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 June 30, 2018
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 No.)

6815 Poplar Ave., Suite 500, Germantown, TN 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 ý NO o
Mid-America Apartments, L.P.	YES ý 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 ý NO o
Mid-America Apartments, L.P. YES ý NO o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and "emerging growth company" in Rule 12b-2 of the Exchange Act.
Mid-America Apartment
Communities, Inc.

Large accelerated filer ý	Accelerated filer o	Non-accelerated filer o	Smaller reporting company o	Emerging growth company o
		(Do not check if a smaller reporting company)		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o
Mid-America Apartments, L.P.

Large accelerated filer o	Accelerated filer o	Non-accelerated filer ý	Smaller reporting company o	Emerging growth company o
		(Do not check if a smaller reporting company)		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act o
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 ý
Mid-America Apartments, L.P. YES o NO ý

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

Mid America Apartment Communities, Inc.	Number of Shares Outstanding at
Class	July 30, 2018
Common Stock, $0.01 par value	113,809,954

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 June 30, 2018 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 96.5% owned subsidiary, Mid-America Apartments, L.P., are both required to file quarterly reports under the Securities Exchange Act of 1934, as amended.

Unless the context otherwise requires, all references in this Quarterly Report on Form 10-Q to "MAA" refer only to Mid-America Apartment Communities, Inc., and not any of its consolidated subsidiaries. Unless the context otherwise requires, all references in this Quarterly Report on Form 10-Q 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 in this Quarterly Report on Form 10-Q 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, "preferred stock" refers to the preferred stock of MAA and "shareholders" means the holders of shares of MAA’s common stock or preferred stock, as applicable. The common units of limited partnership interest in the Operating Partnership are referred to as "OP Units" and the holders of the OP Units are referred to as "common unitholders".

As of June 30, 2018, MAA owned 113,808,292 OP Units (96.5% of the total number of OP Units). 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 periodic reports of MAA and the Operating Partnership, including the notes to the condensed consolidated financial statements, into this Quarterly Report on Form 10-Q 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 Quarterly Report on Form 10-Q applies to both MAA and the Operating Partnership; and
- creates time and cost efficiencies through the preparation of one combined Quarterly Report on Form 10-Q instead of two separate reports.

MAA is a multifamily focused, self-administered and self-managed real estate investment trust, or REIT. Management operates MAA and the Operating Partnership as one business. 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 partners. MAA's only material asset is its ownership of OP Units in the Operating Partnership (other than cash held by MAA from time-to-time); 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 the 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 the Company's business through the Operating Partnership's operations, direct or indirect incurrence of indebtedness and issuance of OP 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, treasury shares, accumulated other comprehensive income and redeemable common stock. The Operating Partnership's capital may include common capital and preferred capital of the general partner (MAA), limited partners' common capital and preferred capital, 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. Holders of OP Units (other than MAA and its subsidiaries) may require the Operating Partnership to redeem their OP Units from time to time, in which case the Operating Partnership may, at its option, pay the redemption price either in cash (in an amount per OP 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 prior to the redemption date) or by delivering one share of MAA's common stock (subject to adjustment under specified circumstances) for each OP Unit so redeemed.

In order to highlight the material differences between MAA and the Operating Partnership, this Quarterly Report on Form 10-Q includes sections that separately present and discuss areas that are materially different between MAA and the Operating Partnership, including:

- the condensed consolidated financial statements in Item 1 of this Quarterly Report on Form 10-Q;
- certain accompanying notes to the condensed consolidated financial statements, including Note 2 - Earnings per Common Share of MAA and Note 3 - Earnings per OP Unit of MAALP; Note 4 - MAA Equity and Note 5 - MAALP Capital; and Note 8 - Shareholders' Equity of MAA and Note 9 - Partners' Capital of MAALP;
- the controls and procedures in Item 4 of this Quarterly Report on Form 10-Q; and
- the certifications included as Exhibits 31 and 32 to this Quarterly Report on Form 10-Q.

In the sections that combine disclosures for MAA and the Operating Partnership, this Quarterly Report on Form 10-Q 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, in that we operate the business through the Operating Partnership.

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

Mid-America Apartment Communities, Inc.
Condensed Consolidated Balance Sheets
(Unaudited)
(Dollars in thousands, except share and per share data)

	June 30, 2018	December 31, 2017
Assets		
Real estate assets:		
Land	$1,868,828	$1,836,417
Buildings and improvements and other	11,555,677	11,281,504
Development and capital improvements in progress	68,784	116,833
	13,493,289	13,234,754
Less: Accumulated depreciation	(2,316,195)	(2,075,071)
	11,177,094	11,159,683
Undeveloped land	41,149	57,285
Investment in real estate joint venture	44,770	44,956
Real estate assets, net	11,263,013	11,261,924
Cash and cash equivalents	32,610	10,750
Restricted cash	28,193	78,117
Other assets	122,563	135,807
Assets held for sale	750	5,321
Total assets	$11,447,129	$11,491,919
Liabilities and equity		
Liabilities:		
Unsecured notes payable	$3,621,824	$3,525,765
Secured notes payable	926,811	976,292
Accrued expenses and other liabilities	409,604	405,560
Total liabilities	4,958,239	4,907,617
Redeemable common stock	9,410	10,408
Shareholders' equity:		
Preferred stock, $0.01 par value per share, 20,000,000 shares authorized; 8.50% Series I Cumulative Redeemable Shares, liquidation preference $50 per share, 867,846 shares issued and outstanding at June 30, 2018 and December 31, 2017, respectively	9	9
Common stock, $0.01 par value per share, 145,000,000 shares authorized; 113,808,292 and 113,643,166 shares issued and outstanding at June 30, 2018 and December 31, 2017, respectively(1)	1,136	1,134
Additional paid-in capital	7,130,902	7,121,112
Accumulated distributions in excess of net income	(887,672)	(784,500)
Accumulated other comprehensive income	7,986	2,157
Total MAA shareholders' equity	6,252,361	6,339,912
Noncontrolling interests - Operating Partnership units	224,813	231,676

Total Company's shareholders' equity	6,477,174	6,571,588
Noncontrolling interest - consolidated real estate entity	2,306	2,306
Total equity	6,479,480	6,573,894
Total liabilities and equity	$11,447,129	$11,491,919

(1) Number of shares issued and outstanding represent total shares of common stock regardless of classification on the Condensed Consolidated Balance Sheets. The number of shares classified as redeemable common stock on the Condensed Consolidated Balance Sheets for June 30, 2018 and December 31, 2017 are 93,475 and 103,504, respectively.

See accompanying notes to condensed consolidated financial statements.

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Mid-America Apartment Communities, Inc.
Condensed Consolidated Statements of Operations
(Unaudited)
(Dollars in thousands, except per share data)

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Revenues:				
Rental and other property revenues	$390,073	$382,791	$776,090	$761,699
Expenses:				
Operating expense, excluding real estate taxes and insurance	92,980	91,806	182,128	179,106
Real estate taxes and insurance	55,750	54,163	111,006	108,136
Depreciation and amortization	122,925	126,360	243,669	256,357
Total property operating expenses	271,655	272,329	536,803	543,599
Property management expenses	11,396	10,745	24,276	21,726
General and administrative expenses	9,211	9,534	19,343	22,374
Merger and integration related expenses	2,826	4,207	6,625	10,368
Income before non-operating items	94,985	85,976	189,043	163,632
Interest expense	(43,585)	(38,481)	(84,490)	(75,065)
Gain on sale of depreciable real estate assets	2	274	2	201
Gain on sale of non-depreciable real estate assets	2,761	48	2,911	48
Other non-operating income	8,032	2,627	5,691	5,338
Income before income tax expense	62,195	50,444	113,157	94,154
Income tax expense	(570)	(618)	(1,210)	(1,269)
Income from continuing operations before real estate joint venture activity	61,625	49,826	111,947	92,885
Income from real estate joint venture	356	329	854	686
Net income	61,981	50,155	112,801	93,571
Net income attributable to noncontrolling interests	2,174	1,840	3,975	3,351
Net income available for shareholders	59,807	48,315	108,826	90,220
Dividends to MAA Series I preferred shareholders	922	922	1,844	1,844
Net income available for MAA common shareholders	$58,885	$47,393	$106,982	$88,376
Earnings per common share - basic:				
Net income available for common shareholders	$0.52	$0.42	$0.94	$0.78
Earnings per common share - diluted:				
Net income available for common shareholders	$0.52	$0.42	$0.94	$0.78
Dividends declared per common share	$0.9225	$0.8700	$1.8450	$1.7400

See accompanying notes to condensed consolidated financial statements.

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Mid-America Apartment Communities, Inc.
Condensed Consolidated Statements of Comprehensive Income
(Unaudited)
(Dollars in thousands)

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Net income	$61,981	$50,155	$112,801	$93,571
Other comprehensive income:				
Unrealized gain (loss) from the effective portion of derivative instruments	5,720	(3,863)	6,552	(1,343)
Reclassification adjustment for net (gains) losses included in net income for the effective portion of derivative instruments	(555)	246	(748)	918
Total comprehensive income	67,146	46,538	118,605	93,146
Less: Comprehensive income attributable to noncontrolling interests	(2,353)	(1,711)	(4,183)	(3,335)
Comprehensive income attributable to MAA	$64,793	$44,827	$114,422	$89,811

See accompanying notes to condensed consolidated financial statements.

Mid-America Apartment Communities, Inc.
Condensed Consolidated Statements of Cash Flows
(Unaudited)
(Dollars in thousands)

	Six months ended June 30, 2018	2017
Cash flows from operating activities:		
Net income	$112,801	$93,571
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	244,521	256,872
Gain on sale of depreciable real estate assets	(2)	(201)
Gain on sale of non-depreciable real estate assets	(2,911)	(48)
Stock compensation expense	6,987	5,618
Amortization of debt premium and debt issuance costs	(2,969)	(6,023)
Net change in operating accounts and other	5,578	(28,566)
Net cash provided by operating activities	364,005	321,223
Cash flows from investing activities:		
Purchases of real estate and other assets	(110,430)	(62,817)
Capital improvements, development and other	(126,333)	(186,372)
Contributions to affiliates, including joint ventures	(750)	—
Proceeds from disposition of real estate assets	16,151	1,551
Net cash used in investing activities	(221,362)	(247,638)
Cash flows from financing activities:		
Proceeds from lines of credit	355,000	375,000
Repayments of lines of credit	(655,000)	(705,000)
Proceeds from notes payable	397,612	597,480
Principal payments on notes payable	(43,622)	(178,164)
Payment of deferred financing costs	(3,471)	(5,257)
Repurchase of common stock	(2,912)	(4,782)
Debt prepayment and extinguishment costs	(3)	(1,581)
Proceeds from issuances of common shares	436	783
Exercise of stock options	625	432
Distributions to noncontrolling interests	(7,685)	(7,332)
Dividends paid on common shares	(209,843)	(197,602)
Dividends paid on preferred shares	(1,844)	(1,844)
Net cash used in financing activities	(170,707)	(127,867)
Net decrease in cash, cash equivalents and restricted cash	(28,064)	(54,282)
Cash, cash equivalents and restricted cash, beginning of period	88,867	121,800
Cash, cash equivalents and restricted cash, end of period	$60,803	$67,518

The following table provides a reconciliation of cash, cash equivalents and restricted cash to amounts reported within the Condensed Consolidated Balance Sheets:

Reconciliation of cash, cash equivalents and restricted cash:		
Cash and cash equivalents	$32,610	$39,659
Restricted cash	28,193	27,859

Total cash, cash equivalents and restricted cash	$60,803	$67,518
Supplemental disclosure of cash flow information:		
Interest paid	$87,872	$79,981
Income taxes paid	2,670	2,226
Supplemental disclosure of noncash investing and financing activities:		
Conversion of OP Units to shares of common stock	$3,118	$265
Accrued construction in progress	22,109	19,360
Interest capitalized	1,283	4,227
Mark-to-market adjustment on derivative instruments	4,597	6,757

See accompanying notes to condensed consolidated financial statements.

Mid-America Apartments, L.P.
Condensed Consolidated Balance Sheets
(Unaudited)
(Dollars in thousands, except unit data)

	June 30, 2018	December 31, 2017
Assets		
Real estate assets:		
Land	$1,868,828	$1,836,417
Buildings and improvements and other	11,555,677	11,281,504
Development and capital improvements in progress	68,784	116,833
	13,493,289	13,234,754
Less: Accumulated depreciation	(2,316,195)	(2,075,071)
	11,177,094	11,159,683
Undeveloped land	41,149	57,285
Investment in real estate joint venture	44,770	44,956
Real estate assets, net	11,263,013	11,261,924
Cash and cash equivalents	32,610	10,750
Restricted cash	28,193	78,117
Other assets	122,563	135,807
Assets held for sale	750	5,321
Total assets	$11,447,129	$11,491,919
Liabilities and capital		
Liabilities:		
Unsecured notes payable	$3,621,824	$3,525,765
Secured notes payable	926,811	976,292
Accrued expenses and other liabilities	409,604	405,560
Due to general partner	19	19
Total liabilities	4,958,258	4,907,636
Redeemable common units	9,410	10,408
Operating Partnership capital:		
Preferred units, 867,846 preferred units outstanding at June 30, 2018 and at December 31, 2017	66,840	66,840
Common units:		
General partner, 113,808,292 and 113,643,166 OP Units outstanding at June 30, 2018 and December 31, 2017, respectively (1)	6,177,170	6,270,758
Limited partners, 4,135,668 and 4,191,586 OP Units outstanding at June 30, 2018 and December 31, 2017, respectively (1)	224,813	231,676
Accumulated other comprehensive income	8,332	2,295
Total operating partners' capital	6,477,155	6,571,569
Noncontrolling interest - consolidated real estate entity	2,306	2,306
Total capital	6,479,461	6,573,875
Total liabilities and capital	$11,447,129	$11,491,919

(1)

Number of units outstanding represent total OP Units regardless of classification on the Condensed Consolidated Balance Sheets. The number of units classified as redeemable common units on the Condensed Consolidated Balance Sheets at June 30, 2018 and December 31, 2017 are 93,475 and 103,504, respectively.

See accompanying notes to condensed consolidated financial statements.

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Mid-America Apartments, L.P.
Condensed Consolidated Statements of Operations
(Unaudited)
(Dollars in thousands, except per unit data)

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Revenues:				
Rental and other property revenues	$390,073	$382,791	$776,090	$761,699
Expenses:				
Operating expense, excluding real estate taxes and insurance	92,980	91,806	182,128	179,106
Real estate taxes and insurance	55,750	54,163	111,006	108,136
Depreciation and amortization	122,925	126,360	243,669	256,357
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General and administrative expenses	9,211	9,534	19,343	22,374
Merger and integration related expenses	2,826	4,207	6,625	10,368
Income before non-operating items	94,985	85,976	189,043	163,632
Interest expense	(43,585)	(38,481)	(84,490)	(75,065)
Gain on sale of depreciable real estate assets	2	274	2	201
Gain on sale of non-depreciable real estate assets	2,761	48	2,911	48
Other non-operating income	8,032	2,627	5,691	5,338
Income before income tax expense	62,195	50,444	113,157	94,154
Income tax expense	(570)	(618)	(1,210)	(1,269)
Income from continuing operations before real estate joint venture activity	61,625	49,826	111,947	92,885
Income from real estate joint venture	356	329	854	686
Net income	61,981	50,155	112,801	93,571
Dividends to preferred unitholders	922	922	1,844	1,844
Net income available for MAALP common unitholders	$61,059	$49,233	$110,957	$91,727
Earnings per common unit - basic:				
Net income available for common unitholders	$0.52	$0.42	$0.94	$0.78
Earnings per common unit - diluted:				
Net income available for common unitholders	$0.52	$0.42	$0.94	$0.78
Distributions declared per common unit	$0.9225	$0.8700	$1.8450	$1.7400

See accompanying notes to condensed consolidated financial statements.

Mid-America Apartments, L.P.
Condensed Consolidated Statements of Comprehensive Income
(Unaudited)
(Dollars in thousands)

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Net income	$61,981	$50,155	$112,801	$93,571
Other comprehensive income:				
Unrealized gain (loss) from the effective portion of derivative instruments	5,720	(3,863)	6,552	(1,343)
Reclassification adjustment for net (gains) losses included in net income for the effective portion of derivative instruments	(555)	246	(748)	918
Comprehensive income attributable to MAALP	$67,146	$46,538	$118,605	$93,146

See accompanying notes to condensed consolidated financial statements.

Mid-America Apartments, L.P.
Condensed Consolidated Statements of Cash Flows
(Unaudited)
(Dollars in thousands)

	Six months ended June 30, 2018	2017
Cash flows from operating activities:		
Net income	$112,801	$93,571
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	244,521	256,872
Gain on sale of depreciable real estate assets	(2)	(201)
Gain on sale of non-depreciable real estate assets	(2,911)	(48)
Stock compensation expense	6,987	5,618
Amortization of debt premium and debt issuance costs	(2,969)	(6,023)
Net change in operating accounts and other	5,578	(28,566)
Net cash provided by operating activities	364,005	321,223
Cash flows from investing activities:		
Purchases of real estate and other assets	(110,430)	(62,817)
Capital improvements, development and other	(126,333)	(186,372)
Contributions to affiliates, including joint ventures	(750)	—
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Net cash used in investing activities	(221,362)	(247,638)
Cash flows from financing activities:		
Proceeds from lines of credit	355,000	375,000
Repayments of lines of credit	(655,000)	(705,000)
Proceeds from notes payable	397,612	597,480
Principal payments on notes payable	(43,622)	(178,164)
Payment of deferred financing costs	(3,471)	(5,257)
Repurchase of common units	(2,912)	(4,782)
Debt prepayment and extinguishment costs	(3)	(1,581)
Proceeds from issuances of common units	436	783
Exercise of unit options	625	432
Distributions paid on common units	(217,528)	(204,934)
Distributions paid on preferred units	(1,844)	(1,844)
Net cash used in financing activities	(170,707)	(127,867)
Net decrease in cash, cash equivalents and restricted cash	(28,064)	(54,282)
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Income taxes paid	2,670	2,226
Supplemental disclosure of noncash investing and financing activities:		
Accrued construction in progress	$22,109	$19,360
Interest capitalized	1,283	4,227
Mark-to-market adjustment on derivative instruments	4,597	6,757

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
(Unaudited)

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

Unless the context otherwise requires, all references to 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" 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, unless the context otherwise requires, "shareholders" means the holders of shares of MAA’s common stock. The common units of limited partnership interests in the Operating Partnership are referred to as "OP Units," and the holders of the OP Units are referred to as "common unitholders".

As of June 30, 2018, MAA owned 113,808,292 OP Units (96.5% of the total number of OP Units). 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.

Management believes combining the notes to the condensed consolidated financial statements of MAA and the Operating Partnership results in the following benefits:

- enhances 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; and
- creates time and cost efficiencies through the preparation of one combined set of notes instead of two separate sets.

MAA is a multifamily focused, self-administered and self-managed real estate investment trust, or REIT. 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. Management believes 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 partners. MAA's only material asset is its ownership of OP Units 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 the Company's 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 the business through the Operating Partnership's operations, direct or indirect incurrence of indebtedness and issuance of OP Units.

The presentation of MAA's shareholders' equity and the Operating Partnership's capital are the principal areas of difference between the condensed 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, treasury shares, accumulated other comprehensive income and redeemable common stock. The Operating Partnership's capital may include common capital and preferred capital of the general partner (MAA), limited partners' common capital and preferred capital, 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. Holders of OP Units (other than MAA and its subsidiaries) may require the Operating Partnership to redeem their OP Units from time-to-time, in which case the Operating Partnership may, at its option, pay the redemption price either in cash (in an amount per OP 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 prior to the redemption date) or by delivering one share of MAA's common stock (subject to adjustment under specified circumstances) for each OP Unit so redeemed.

Organization of Mid-America Apartment Communities, Inc.

As of June 30, 2018, the Company owned and operated 303 apartment communities through the Operating Partnership. As of June 30, 2018, MAA also owned a 35.0% interest in an unconsolidated real estate joint venture and a 25.2% interest in an unconsolidated limited partnership. As of June 30, 2018, the Company had four development communities under construction totaling 1,076 apartment units. Total expected costs for these four development projects are $219.8 million, of which $122.7 million had been incurred through June 30, 2018. The Company expects to complete construction on one project by the end of the third quarter of 2018, one project by the end of the fourth quarter of 2018, one project by the end of the fourth quarter of 2019, and one project by the end of the third quarter of 2020. Twenty-nine of the Company's multifamily properties include retail components with approximately 610,000 square feet of gross leasable space. The Company also has four wholly-owned commercial properties with approximately 260,000 square feet of combined gross leasable area.

On December 1, 2016, MAA completed a merger with Post Properties, Inc., or Post Properties. Pursuant to the Agreement and Plan of Merger, Post Properties merged with and into MAA, with MAA continuing as the surviving corporation and Post Apartment Homes, L.P. merged with and into MAALP, with MAALP continuing as the surviving entity.

Basis of Presentation and Principles of Consolidation

The accompanying condensed consolidated financial statements have been prepared by the Company's 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 92.5% to 100% of all consolidated subsidiaries, including the Operating Partnership. 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, 92.5% to 100% of all consolidated subsidiaries. In management's 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.

The Company invests in entities which may qualify as variable interest entities, or VIEs, and MAALP is considered a 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. MAALP is classified as a VIE, since the limited partners lack substantive kick-out rights and substantive participating rights. The Company consolidates all VIEs for which it is the primary beneficiary and uses the equity method to account for investments that qualify as VIEs but for which it is not the primary beneficiary. In determining whether the Company is the primary beneficiary of a VIE, management considers both 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. The Company uses the equity method of accounting for its investments in entities for which the Company exercises significant influence, but does not have the ability to exercise control. The factors considered in determining whether the Company has the ability to exercise control include ownership of voting interests and participatory rights of investors (see "Investment in Unconsolidated Affiliates" below).

Changes in Presentation

Please refer to the Company's Annual Report on Form 10-K for the year ended December 31, 2017 that the Company filed with the SEC on February 23, 2018 for discussions of the changes in presentation in the Condensed Consolidated Balance Sheets, Condensed Consolidated Statements of Operations and Condensed Consolidated Statements of Cash Flows, which are applicable for this Quarterly Report on Form 10-Q.

Noncontrolling Interests

At June 30, 2018, the Company had two types of noncontrolling interests, (1) noncontrolling interests related to the common unitholders of its Operating Partnership (see Note 9) and (2) noncontrolling interest related to its consolidated real estate entity (see "Investment in Consolidated Real Estate Entity" below).

Investment in Unconsolidated Affiliates

The Company, together with other institutional investors in a limited liability company, or the Apartment LLC, indirectly owns one apartment community, Post Massachusetts Avenue, located in Washington, D.C. The Company owns a 35.0% equity interest in the unconsolidated real estate joint venture as of June 30, 2018 and provides property and asset management services to the Apartment LLC for which it earns fees. The joint venture was determined to be a VIE, but the Company is not designated as a primary beneficiary. As a result, the Company accounts for its investment in the Apartment LLC using the equity method of accounting, as the Company is able to exert significant influence over the joint venture but does not have a controlling interest. At June 30, 2018, the Company's investment in the Apartment LLC totaled $44.8 million.

During September 2017, a subsidiary of the Operating Partnership entered into a limited partnership together with a general partner and other limited partners to form Real Estate Technology Ventures, L.P. The Operating Partnership indirectly owns 25.2% of the limited partnership. The limited partnership was determined to be a VIE, but the Company is not designated as a primary beneficiary. As a result, the Company accounts for its investment in the limited partnership using the equity method of accounting as the investment is considered more than minor. At June 30, 2018, the Company's investment in the limited partnership totaled $1.9 million. As of June 30, 2018, the Company was committed to make additional capital contributions totaling $12.8 million if and when called by the general partner of the limited partnership prior to September 2022.

Investment in Consolidated Real Estate Entity

At June 30, 2018, the Company owned a 92.5% equity interest in a consolidated real estate joint venture to develop, construct and operate a 359-unit apartment community in Denver, Colorado, along with a private real estate company. The venture partner was generally responsible for the development and construction of the community, and the Company will continue to manage the community as construction on the development was completed during the six months ended June 30, 2018. The entity was determined to be a VIE with the Company designated as the primary beneficiary. As a result, the accounts of the entity are consolidated by the Company. At June 30, 2018, the consolidated assets, liabilities and equity included buildings and improvements and other, net of accumulated depreciation of $70.7 million; land of $14.9 million; and accrued expenses and other liabilities of $1.3 million.

Assets Held for Sale

During the second quarter of 2018, the criteria for classifying one land parcel located in the Atlanta, Georgia market as held for sale were met, and as a result, the land parcel was presented as held for sale in the Condensed Consolidated Balance Sheet as of June 30, 2018. See Note 13 for details on the July 2018 disposition of this land parcel. The Randal Park land parcel that comprised the asset held for sale balance as of December 31, 2017, was sold during the first quarter of 2018 as detailed in Note 12.

Fair Value Measurements

The Company applies the guidance in Accounting Standards Codification, or ASC, Topic 820, Fair Value Measurements and Disclosures, to the valuation of real estate assets recorded at fair value, if any; to its impairment valuation analysis of real estate assets; to its disclosure of the fair value of financial instruments, principally indebtedness; and to its derivative financial instruments. Fair value disclosures required under ASC Topic 820 are summarized in Note 7 utilizing the following hierarchy:

Level 1 - Quoted prices in active markets for identical assets or liabilities that are accessible at the measurement date.
Level 2 - Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly.

Level 3 - Unobservable inputs for the assets or liability.
Revenue from Contracts with Customers

The Company primarily leases multifamily residential apartments under operating leases generally with terms of one year or less, which are recorded as operating leases. Rental lease revenues are recognized in accordance with ASC Topic 840, Leases, using a method that represents a straight-line basis over the term of the lease. Rental income represents approximately 93% of the Company's total revenues and includes gross market rent less adjustments for concessions, vacancy loss and bad debt.

Other non-lease revenues represent the remaining 7% of the Company's total revenues and are primarily driven by utility reimbursement revenue from its tenants. The Company's primary sources of reimbursement revenue are from water and cable utility services, which produced $19.3 million and $14.9 million, respectively, of revenues during the six months ended June 30, 2018, and $18.8 million and $15.3 million of revenues, respectively, during the six months ended June 30, 2017.

Other non-lease revenues are recognized in accordance with ASC Topic 606, Revenue Recognition, as a result of the Company's January 1, 2018 adoption of Accounting Standards Update, or ASU, 2014-09, Revenue from Contracts with Customers, using the modified retrospective approach. The guidance requires that revenue (outside of the scope of lease revenue accounting rules) is recognized when a customer obtains control of promised goods or services in an amount that reflects the consideration the entity expects to receive in exchange for those goods or services. While ASU 2014-09 requires additional disclosure regarding the nature and timing of the Company's non-lease revenue transactions, which is provided here in Note 1 as well as Note 11, the adoption of the ASU did not have a material impact on the Company's consolidated financial statements or the Company's internal accounting policies and did not result in an opening adjustment to retained earnings. In addition, the Company elected the available practical expedients to the ASU’s requirement for disclosure on remaining performance obligations, which allow an entity to avoid disclosing the amount of the remaining performance obligations for contracts with an original expected duration of less than one year or those that meet the practical expedient in ASC 606-10-55-18 that permits the entity to recognize revenue as invoiced. See Note 11 for the disaggregation of the Company's revenues in accordance with ASU 2014-09.

Impact of Recently Adopted Accounting Standards on Condensed Consolidated Statements of Cash Flows

Effective January 1, 2018, the Company adopted ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments (a
Consensus of the FASB Emerging Issues Task Force), which clarifies how certain types of cash receipts and cash payments are to be presented and classified on the statement of cash flows. Management determined that three of the eight transactions in the ASU are relevant to the Company and its cash flows and include debt prepayment and extinguishment costs, proceeds from the settlement of insurance claims and distributions received from equity method investees. Upon adoption of ASU 2016-15, the Company recognized a $1.6 million increase to net cash provided by operating activities and a $1.6 million decrease to net cash used in financing activities for the six months ended June 30, 2017.

The Company adopted ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash (A Consensus of the FASB Emerging Issues Task Force), effective January 1, 2018. The ASU required restricted cash to be presented within cash and cash equivalents when reconciling the beginning and ending amounts in the statement of cash flow with retrospective adjustments to all periods presented. The Company previously reported the change in restricted cash within the operating and investing activities in the consolidated statement of cash flows. Upon adoption, cash, cash equivalents and restricted cash reported in the Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2017 increased by approximately $27.9 million to reflect the restricted cash balances. Additionally, net cash provided by operating activities decreased by $2.1 million for the six months ended June 30, 2017, while net cash used in investing activities decreased by $58.3 million for the six months ended June 30, 2017.

Recently Issued Accounting Pronouncements

The Company believes the following recent accounting pronouncement is relevant to the readers of the Company's financial statements and could have a material effect on the Company's consolidated financial statements.

In 2016, the Financial Accounting Standard Board, or FASB, issued a new lease accounting standard, ASU 2016-02, Leases (Topic 842), which amends existing accounting standards and establishes new principles, presentation and disclosure requirements for lease accounting for both the lessee and lessor. Under the new standard, lessors will use an approach that is substantially equivalent to existing guidance but aligned with the newly adopted revenue recognition standard, while lessees will be required to record most leases on the balance sheet and recognize lease expense in the income statement in a manner similar to current practice. The new standard requires a lessee to recognize a lease liability for the obligation to make lease payments and a right-of-use asset for the right to use the underlying asset for all leases with terms of more than twelve months. Expenses related to leases determined to be operating leases will be recognized on a straight-line basis, while those determined to be financing leases will be recognized following a front-loaded expense profile in which interest and amortization are presented separately in the income statement. The standard must be adopted using a modified retrospective transition approach. Entities have the option to apply the transition approach in the earliest period presented or in the period of adoption. If an entity elects to apply the transition approach in the period of adoption, prior period financial statements and disclosures would be presented in accordance with existing leases guidance. Management is currently evaluating the impact the standard will have on the consolidated financial statements and related disclosures upon adoption on January 1, 2019.

2. Earnings per Common Share of MAA

Basic earnings per share is computed by dividing net income available to MAA common shareholders by the weighted average number of common shares outstanding during the period. All outstanding unvested restricted share awards contain rights to non-forfeitable dividends and participate in undistributed earnings with 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 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 the units are dilutive to earnings per share. For the three and six months ended June 30, 2018 and 2017, MAA's basic earnings per share was computed using the two-class method, and MAA's diluted earnings per share was computed using the more dilutive of the treasury stock method or two-class method, as presented below (dollars and shares in thousands, except per share amounts):

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Common Shares Outstanding				
Weighted average common shares - basic	113,646	113,403	113,595	113,371
Weighted average partnership units outstanding	— (1)	— (1)	— (1)	— (1)
Effect of dilutive securities	207	211	174	279
Weighted average common shares - diluted	113,853	113,614	113,769	113,650
Calculation of Earnings per Common Share - basic				
Net income	$61,981	$50,155	$112,801	$93,571
Net income attributable to noncontrolling interests	(2,174)	(1,840)	(3,975)	(3,351)
Unvested restricted stock (allocation of earnings)	(78)	(76)	(142)	(149)
Preferred dividends	(922)	(922)	(1,844)	(1,844)
Net income available for common shareholders, adjusted	$58,807	$47,317	$106,840	$88,227