

MID AMERICA APARTMENT COMMUNITIES INC.

Form 10-Q

November 01, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 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  NO

Mid-America Apartments, L.P. YES  NO

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files).

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Mid-America Apartment Communities, Inc. YES  NO

Mid-America Apartments, L.P. YES  NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>	Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>	Emerging growth company	<input type="checkbox"/>
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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.

Mid-America Apartments, L.P.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>	Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>	Emerging growth company	<input type="checkbox"/>
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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

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

Mid-America Apartment Communities, Inc. YES  NO

Mid-America Apartments, L.P. YES  NO

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

Mid-America Apartment Communities, Inc.	Number of Shares Outstanding at
Class	October 29, 2018
Common Stock, \$0.01 par value	113,837,767

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 September 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 September 30, 2018, MAA owned 113,838,139 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

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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)

	September 30, 2018	December 31, 2017
Assets		
Real estate assets:		
Land	\$ 1,868,828	\$ 1,836,417
Buildings and improvements and other	11,636,424	11,281,504
Development and capital improvements in progress	53,739	116,833
	13,558,991	13,234,754
Less: Accumulated depreciation	(2,439,418 )	(2,075,071 )
	11,119,573	11,159,683
Undeveloped land	31,849	57,285
Investment in real estate joint venture	44,619	44,956
Real estate assets, net	11,196,041	11,261,924
Cash and cash equivalents	46,139	10,750
Restricted cash	33,261	78,117
Other assets	134,246	135,807
Assets held for sale	9,300	5,321
Total assets	\$ 11,418,987	\$ 11,491,919
Liabilities and equity		
Liabilities:		
Unsecured notes payable	\$ 3,582,624	\$ 3,525,765
Secured notes payable	921,399	976,292
Accrued expenses and other liabilities	473,803	405,560
Total liabilities	4,977,826	4,907,617
Redeemable common stock	9,607	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 September 30, 2018 and December 31, 2017, respectively	9	9
Common stock, \$0.01 par value per share, 145,000,000 shares authorized; 113,838,139 and 113,643,166 shares issued and outstanding at September 30, 2018 and December 31, 2017, respectively <sup>(1)</sup>	1,136	1,134
Additional paid-in capital	7,135,479	7,121,112
Accumulated distributions in excess of net income	(940,773 )	(784,500 )
Accumulated other comprehensive income	11,556	2,157
Total MAA shareholders' equity	6,207,407	6,339,912
Noncontrolling interests - Operating Partnership units	221,841	231,676

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Total Company's shareholders' equity	6,429,248	6,571,588
Noncontrolling interest - consolidated real estate entity	2,306	2,306
Total equity	6,431,554	6,573,894
Total liabilities and equity	\$ 11,418,987	\$ 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 September 30, 2018 and December 31, 2017 are 95,899 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 September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Revenues:				
Rental and other property revenues	\$397,108	\$384,550	\$1,173,198	\$1,146,249
Expenses:				
Operating expense, excluding real estate taxes and insurance	97,703	96,582	279,831	275,688
Real estate taxes and insurance	57,037	52,597	168,043	160,733
Depreciation and amortization	124,549	117,928	368,218	374,285
Total property operating expenses	279,289	267,107	816,092	810,706
Property management expenses	11,303	10,281	35,579	32,007
General and administrative expenses	6,380	8,361	25,723	30,735
Merger and integration related expenses	1,878	4,130	8,503	14,498
Income before non-operating items	98,258	94,671	287,301	258,303
Interest expense	(44,650 )	(39,940 )	(129,140 )	(115,005 )
(Loss) gain on sale of depreciable real estate assets	(23 )	58,844	(21 )	59,045
Gain (loss) on sale of non-depreciable real estate assets	959	(6 )	3,870	42
Other non-operating income	374	5,695	6,065	11,033
Income before income tax expense	54,918	119,264	168,075	213,418
Income tax expense	(616 )	(641 )	(1,826 )	(1,910 )
Income from continuing operations before real estate joint venture activity	54,302	118,623	166,249	211,508
Income from real estate joint venture	402	335	1,256	1,021
Net income	54,704	118,958	167,505	212,529
Net income attributable to noncontrolling interests	1,913	4,249	5,888	7,600
Net income available for shareholders	52,791	114,709	161,617	204,929
Dividends to MAA Series I preferred shareholders	922	922	2,766	2,766
Net income available for MAA common shareholders	\$51,869	\$113,787	\$158,851	\$202,163
Earnings per common share - basic:				
Net income available for common shareholders	\$0.46	\$1.00	\$1.40	\$1.78
Earnings per common share - diluted:				
Net income available for common shareholders	\$0.46	\$1.00	\$1.40	\$1.78
Dividends declared per common share	\$0.9225	\$0.8700	\$2.7675	\$2.6100

See accompanying notes to condensed consolidated financial statements.

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

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Net income	\$54,704	\$118,958	\$167,505	\$212,529
Other comprehensive income:				
Unrealized gain (loss) from the effective portion of derivative instruments	4,245	90	10,797	(1,252 )
Reclassification adjustment for net (gains) losses included in net income for the effective portion of derivative instruments	(548 )	(33 )	(1,296 )	884
Total comprehensive income	58,401	119,015	177,006	212,161
Less: Comprehensive income attributable to noncontrolling interests	(2,040 )	(4,251 )	(6,223 )	(7,586 )
Comprehensive income attributable to MAA	\$56,361	\$114,764	\$170,783	\$204,575

See accompanying notes to condensed consolidated financial statements.

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

	Nine months ended September 30,	
	2018	2017
Cash flows from operating activities:		
Net income	\$167,505	\$212,529
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	369,223	374,947
Loss (gain) on sale of depreciable real estate assets	21	(59,045 )
Gain on sale of non-depreciable real estate assets	(3,870 )	(42 )
Stock compensation expense	9,877	8,431
Amortization of debt premium and debt issuance costs	(4,318 )	(8,035 )
Net change in operating accounts and other	62,618	28,671
Net cash provided by operating activities	601,056	557,456
Cash flows from investing activities:		
Purchases of real estate and other assets	(112,656 )	(63,774 )
Capital improvements, development and other	(192,520 )	(268,423 )
Contributions to affiliates, including joint ventures	(1,500 )	(750 )
Proceeds from disposition of real estate assets	18,918	89,857
Net cash used in investing activities	(287,758 )	(243,090 )
Cash flows from financing activities:		
Proceeds from lines of credit	780,000	580,000
Repayments of lines of credit	(820,000 )	(820,000 )
Proceeds from notes payable	397,612	597,480
Principal payments on notes payable	(346,239 )	(345,053 )
Payment of deferred financing costs	(3,741 )	(5,355 )
Repurchase of common stock	(2,912 )	(4,782 )
Debt prepayment and extinguishment costs	(3 )	(1,585 )
Proceeds from issuances of common shares	488	1,007
Exercise of stock options	916	432
Distributions to noncontrolling interests	(11,286 )	(10,999 )
Dividends paid on common shares	(314,834 )	(296,441 )
Dividends paid on preferred shares	(2,766 )	(2,766 )
Net cash used in financing activities	(322,765 )	(308,062 )
Net (decrease) increase in cash, cash equivalents and restricted cash	(9,467 )	6,304
Cash, cash equivalents and restricted cash, beginning of period	88,867	121,800
Cash, cash equivalents and restricted cash, end of period	\$79,400	\$128,104

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	\$46,139	\$47,851
Restricted cash	33,261	80,253

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Total cash, cash equivalents and restricted cash	\$79,400	\$128,104
Supplemental disclosure of cash flow information:		
Interest paid	\$111,439	\$123,735
Income taxes paid	2,746	2,256
Supplemental disclosure of noncash investing and financing activities:		
Conversion of OP Units to shares of common stock	\$4,282	\$1,133
Accrued construction in progress	19,476	15,787
Interest capitalized	1,640	5,884
Mark-to-market adjustment on derivative instruments	7,956	12,035
See accompanying notes to condensed consolidated financial statements.		

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

	September 30, 2018	December 31, 2017
Assets		
Real estate assets:		
Land	\$1,868,828	\$1,836,417
Buildings and improvements and other	11,636,424	11,281,504
Development and capital improvements in progress	53,739	116,833
	13,558,991	13,234,754
Less: Accumulated depreciation	(2,439,418 )	(2,075,071 )
	11,119,573	11,159,683
Undeveloped land	31,849	57,285
Investment in real estate joint venture	44,619	44,956
Real estate assets, net	11,196,041	11,261,924
Cash and cash equivalents	46,139	10,750
Restricted cash	33,261	78,117
Other assets	134,246	135,807
Assets held for sale	9,300	5,321
Total assets	\$11,418,987	\$11,491,919
Liabilities and capital		
Liabilities:		
Unsecured notes payable	\$3,582,624	\$3,525,765
Secured notes payable	921,399	976,292
Accrued expenses and other liabilities	473,803	405,560
Due to general partner	19	19
Total liabilities	4,977,845	4,907,636
Redeemable common units	9,607	10,408
Operating Partnership capital:		
Preferred units, 867,846 preferred units outstanding at September 30, 2018 and at December 31, 2017	66,840	66,840
Common units:		
General partner, 113,838,139 and 113,643,166 OP Units outstanding at September 30, 2018 and December 31, 2017, respectively <sup>(1)</sup>	6,128,519	6,270,758
Limited partners, 4,114,276 and 4,191,586 OP Units outstanding at September 30, 2018 and December 31, 2017, respectively <sup>(1)</sup>	221,841	231,676
Accumulated other comprehensive income	12,029	2,295
Total operating partners' capital	6,429,229	6,571,569
Noncontrolling interest - consolidated real estate entity	2,306	2,306
Total capital	6,431,535	6,573,875
Total liabilities and capital	\$11,418,987	\$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 September 30, 2018 and December 31, 2017 are 95,899 and 103,504, respectively. See accompanying notes to condensed consolidated financial statements.

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

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Revenues:				
Rental and other property revenues	\$397,108	\$384,550	\$1,173,198	\$1,146,249
Expenses:				
Operating expense, excluding real estate taxes and insurance	97,703	96,582	279,831	275,688
Real estate taxes and insurance	57,037	52,597	168,043	160,733
Depreciation and amortization	124,549	117,928	368,218	374,285
Total property operating expenses	279,289	267,107	816,092	810,706
Property management expenses	11,303	10,281	35,579	32,007
General and administrative expenses	6,380	8,361	25,723	30,735
Merger and integration related expenses	1,878	4,130	8,503	14,498
Income before non-operating items	98,258	94,671	287,301	258,303
Interest expense	(44,650 )	(39,940 )	(129,140 )	(115,005 )
(Loss) gain on sale of depreciable real estate assets	(23 )	58,844	(21 )	59,045
Gain (loss) on sale of non-depreciable real estate assets	959	(6 )	3,870	42
Other non-operating income	374	5,695	6,065	11,033
Income before income tax expense	54,918	119,264	168,075	213,418
Income tax expense	(616 )	(641 )	(1,826 )	(1,910 )
Income from continuing operations before real estate joint venture activity	54,302	118,623	166,249	211,508
Income from real estate joint venture	402	335	1,256	1,021
Net income	54,704	118,958	167,505	212,529
Dividends to preferred unitholders	922	922	2,766	2,766
Net income available for MAALP common unitholders	\$53,782	\$118,036	\$164,739	\$209,763
Earnings per common unit - basic:				
Net income available for common unitholders	\$0.46	\$1.00	\$1.40	\$1.78
Earnings per common unit - diluted:				
Net income available for common unitholders	\$0.46	\$1.00	\$1.40	\$1.78
Distributions declared per common unit	\$0.9225	\$0.8700	\$2.7675	\$2.6100

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 September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Net income	\$54,704	\$118,958	\$167,505	\$212,529
Other comprehensive income:				
Unrealized gain (loss) from the effective portion of derivative instruments	4,245	90	10,797	(1,252 )
Reclassification adjustment for net (gains) losses included in net income for the effective portion of derivative instruments	(548 )	(33 )	(1,296 )	884
Comprehensive income attributable to MAALP	\$58,401	\$119,015	\$177,006	\$212,161

See accompanying notes to condensed consolidated financial statements.



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

	Nine months ended September 30,	
	2018	2017
Cash flows from operating activities:		
Net income	\$167,505	\$212,529
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	369,223	374,947
Loss (gain) on sale of depreciable real estate assets	21	(59,045 )
Gain on sale of non-depreciable real estate assets	(3,870 )	(42 )
Stock compensation expense	9,877	8,431
Amortization of debt premium and debt issuance costs	(4,318 )	(8,035 )
Net change in operating accounts and other	62,618	28,671
Net cash provided by operating activities	601,056	557,456
Cash flows from investing activities:		
Purchases of real estate and other assets	(112,656 )	(63,774 )
Capital improvements, development and other	(192,520 )	(268,423 )
Contributions to affiliates, including joint ventures	(1,500 )	(750 )
Proceeds from disposition of real estate assets	18,918	89,857
Net cash used in investing activities	(287,758 )	(243,090 )
Cash flows from financing activities:		
Proceeds from lines of credit	780,000	580,000
Repayments of lines of credit	(820,000 )	(820,000 )
Proceeds from notes payable	397,612	597,480
Principal payments on notes payable	(346,239 )	(345,053 )
Payment of deferred financing costs	(3,741 )	(5,355 )
Repurchase of common units	(2,912 )	(4,782 )
Debt prepayment and extinguishment costs	(3 )	(1,585 )
Proceeds from issuances of common units	488	1,007
Exercise of unit options	916	432
Distributions paid on common units	(326,120 )	(307,440 )
Distributions paid on preferred units	(2,766 )	(2,766 )
Net cash used in financing activities	(322,765 )	(308,062 )
Net (decrease) increase in cash, cash equivalents and restricted cash	(9,467 )	6,304
Cash, cash equivalents and restricted cash, beginning of period	88,867	121,800
Cash, cash equivalents and restricted cash, end of period	\$79,400	\$128,104

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	\$46,139	\$47,851
Restricted cash	33,261	80,253
Total cash, cash equivalents and restricted cash	\$79,400	\$128,104

Supplemental disclosure of cash flow information:

Interest paid	\$111,439	\$123,735
Income taxes paid	2,746	2,256

Supplemental disclosure of noncash investing and financing activities:

Accrued construction in progress	\$19,476	\$15,787
Interest capitalized	1,640	5,884
Mark-to-market adjustment on derivative instruments	7,956	12,035

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 September 30, 2018, MAA owned 113,838,139 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 September 30, 2018, the Company owned and operated 303 apartment communities through the Operating Partnership. As of September 30, 2018, MAA also owned a 35.0% interest in an unconsolidated real estate joint venture and a 21.0% interest in an unconsolidated limited partnership. As of September 30, 2018, the Company had four development communities under construction totaling 717 apartment units. Total expected costs for these four development projects are \$148.0 million, of which \$45.7 million had been incurred through September 30, 2018. The Company expects to complete one of the developments in the fourth quarter of 2018, two developments in the second half of 2019, and one development in the second half of 2020. Thirty of the Company's multifamily properties include retail components with approximately 615,000 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 Current Report on Form 8-K, filed with the SEC on September 26, 2018, that retrospectively revised certain financial information and related disclosures included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017, 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 September 30, 2018, the Company had two types of noncontrolling interests with respect to its consolidated subsidiaries, (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 September 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 September 30, 2018, the Company's investment in the Apartment LLC totaled \$44.6 million.

During September 2017, a subsidiary of the Operating Partnership invested in a limited partnership, Real Estate Technology Ventures, L.P. As of September 30, 2018, the Operating Partnership indirectly owns approximately 21.0% 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 September 30, 2018, the Company's investment in the limited partnership totaled \$2.5 million. As of September 30, 2018, the Company was committed to make additional capital contributions totaling \$12.0 million if and when called by the general partner of the limited partnership prior to September 2022.

#### Investment in Consolidated Real Estate Entity

At September 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 was completed during the nine months ended September 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 September 30, 2018, the consolidated assets, liabilities and equity included buildings and improvements and other, net of accumulated depreciation of \$70.3 million; land of \$14.9 million; and accrued expenses and other liabilities of \$1.1 million.

#### Assets Held for Sale

The criteria for classifying two land parcels as held for sale were met during August 2018; however, the sale of the two land parcels is not expected to close until the fourth quarter of 2018. As a result, the two land parcels were classified as held for sale as of September 30, 2018. 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 \$29.2 million and \$22.4 million, respectively, of revenues during the nine months ended September 30, 2018, and \$28.5 million and \$22.9 million of revenues, respectively, during the nine months ended September 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, net cash provided by operating activities increased by \$1.8 million, net cash used in investing activities decreased by \$0.2 million, and net cash used in financing activities decreased by \$1.6 million in the Condensed Consolidated Statements of Cash Flows for the nine months ended September 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 nine months ended September 30, 2017 increased by approximately \$80.3 million to reflect the restricted cash balances. Additionally, net cash provided by operating activities increased by \$2.6 million for the nine months ended September 30, 2017, while net cash used in investing activities decreased by \$10.6 million for the nine months ended September 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. Management anticipates the Company will elect to apply the modified retrospective transition approach upon adoption of ASU 2016-02 on January 1, 2019, which allows the Company to recognize a cumulative-effect adjustment to the opening balance of retained earnings as of the date of adoption. Management does not anticipate any significant changes in the accounting for the Company's lease revenues upon adoption of the new lease standard as the Company's residential and retail/commercial leases, where it is the lessor, will continue to be accounted for as operating leases, and management anticipates the election of an available practical expedient that provides lessors an option not to separate lease and non-lease components when certain criteria are met and instead account for those components as a single component.

The Company is the lessee under certain corporate office and ground leases and will be required to recognize a right-of-use asset and a corresponding lease obligation on its consolidated balance sheet for those leases on January 1, 2019. Management currently anticipates the Company's corporate office leases will continue to be accounted for as operating leases under the new standard. Based on its anticipated election of available practical expedients, the Company will not be required to reassess the classification of existing ground leases; therefore, these leases will continue to be accounted for as operating leases. Management estimates the Company will recognize total right-of-use assets and related lease obligations at an amount that is less than \$40.0 million on January 1, 2019, with an immaterial impact to its results of operations as compared to the current lease accounting standard. However, the ultimate impact of the standard will depend on the Company's lease portfolio as of the adoption date. The Company will continue to evaluate the impact of the standard on its consolidated financial statements and related disclosures.

## 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 nine months ended September 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 September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Calculation of Earnings per Common Share - basic				
Net income	\$54,704	\$118,958	\$167,505	\$212,529
Net income attributable to noncontrolling interests	(1,913 )	(4,249 )	(5,888 )	(7,600 )
Unvested restricted stock (allocation of earnings)	(69 )	(181 )	(211 )	(337 )
Preferred dividends	(922 )	(922 )	(2,766 )	(2,766 )
Net income available for common shareholders, adjusted	\$51,800	\$113,606	\$158,640	\$201,826
Weighted average common shares - basic	113,671	113,434	113,620	113,392
Earnings per common share - basic	\$0.46	\$1.00	\$1.40	\$1.78
Calculation of Earnings per Common Share - diluted				
Net income	\$54,704	\$118,958	\$167,505	\$212,529
Net income attributable to noncontrolling interests	(1,913 ) <sup>(1)</sup>	(4,249 ) <sup>(1)</sup>	(5,888 ) <sup>(1)</sup>	(7,600 ) <sup>(1)</sup>
Preferred dividends	(922 )	(922 )	(2,766 )	(2,766 )
Net income available for common shareholders, adjusted	\$51,869	\$113,787	\$158,851	\$202,163
Weighted average common shares - basic	113,671	113,434	113,620	113,392
Weighted average partnership units outstanding	—	(1) —	(1) —	(1) —
Effect of dilutive securities	239	219	201	270
Weighted average common shares - diluted	113,910	113,653	113,821	113,662
Earnings per common share - diluted	\$0.46	\$1.00	\$1.40	\$1.78

(1) For the three and nine months ended September 30, 2018, 4.1 million OP Units and their related income are not included in the diluted earnings per share calculations as they are not dilutive. For the three and nine months ended September 30, 2017, 4.2 million OP Units and their related income are not included in the diluted earnings per share calculations as they are not dilutive.

## 3. Earnings per OP Unit of MAALP

Basic earnings per OP Unit is computed by dividing net income available for common unitholders by the weighted average number of OP Units outstanding during the period. All outstanding unvested restricted unit awards contain rights to non-forfeitable distributions 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 OP Unit computations for the three and nine months ended September 30, 2018 and 2017 is presented below (dollars and units in thousands, except per unit amounts):

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Calculation of Earnings per Common Unit - basic				
Net income	\$54,704	\$118,958	\$167,505	\$212,529
Unvested restricted stock (allocation of earnings)	(69 )	(181 )	(211 )	(337 )
Preferred unit distributions	(922 )	(922 )	(2,766 )	(2,766 )
Net income available for common unitholders, adjusted	\$53,713	\$117,855	\$164,528	\$209,426
Weighted average common units - basic	117,796	117,643	117,768	117,607
Earnings per common unit - basic	\$0.46	\$1.00	\$1.40	\$1.78
Calculation of Earnings per Common Unit - diluted				
Net income	\$54,704	\$118,958	\$167,505	\$212,529
Preferred unit distributions	(922 )	(922 )	(2,766 )	(2,766 )
Net income available for common unitholders, adjusted	\$53,782	\$118,036	\$164,739	\$209,763
Weighted average common shares - basic	117,796	117,643	117,768	117,607
Effect of dilutive securities	239	219	201	270
Weighted average common units - diluted	118,035	117,862	117,969	117,877
Earnings per common unit - diluted	\$0.46	\$1.00	\$1.40	\$1.78

## 4. MAA Equity

Changes in total equity and its components for the nine months ended September 30, 2018 and 2017 were as follows (dollars in thousands):

Mid-America Apartment Communities, Inc. Shareholders' Equity								
	Preferred Stock	Common Stock	Additional Paid-In Capital	Accumulated Distributions in Excess of Net Income	Accumulated Other Comprehensive Income	Noncontrolling Interests - Operating Partnership	Noncontrolling Interest - Consolidated Real Estate Entity	Total Equity
EQUITY BALANCE DECEMBER 31, 2017	\$9	\$ 1,134	\$7,121,112	\$ (784,500 )	\$ 2,157	\$ 231,676	\$ 2,306	\$6,573,894
Net income attributable to controlling interests	—	—	—	161,617	—	5,888	—	167,505
Other comprehensive income - derivative instruments	—	—	—	—	9,166	335	—	9,501
Issuance and registration of common shares	—	1	(272 )	—	—	—	—	(271 )
Shares repurchased and retired	—	—	(2,912 )	—	—	—	—	(2,912 )
Exercise of stock options	—	—	916	—	—	—	—	916
Shares issued in exchange for common units	—	1	4,282	—	—	(4,283 )	—	—
Shares issued in exchange for redeemable stock	—	—	1,915	—	—	—	—	1,915
Redeemable stock fair market value adjustment	—	—	—	121	—	—	—	121
Adjustment for noncontrolling interests in Operating Partnership	—	—	561	—	—	(561 )	—	—
Cumulative adjustment due to adoption of ASU 2017-12	—	—	—	(233 )	233	—	—	—
Amortization of unearned compensation	—	—	9,877	—	—	—	—	9,877
Dividends on preferred stock	—	—	—	(2,766 )	—	—	—	(2,766 )
Dividends on common stock	—	—	—	(315,012 )	—	—	—	(315,012 )
Dividends on noncontrolling interests units	—	—	—	—	—	(11,214 )	—	(11,214 )
EQUITY BALANCE SEPTEMBER 30, 2018	\$9	\$ 1,136	\$7,135,479	\$ (940,773 )	\$ 11,556	\$ 221,841	\$ 2,306	\$6,431,554

Mid-America Apartment Communities, Inc.  
Shareholders' Equity

	Preferred Stock	Common Stock	Additional Paid-In Capital	Accumulated Distributions in Excess of Net Income	Accumulated Other Comprehensive Income	Noncontrolling Interests - Operating Partnership	Noncontrolling Interest - Consolidated Real Estate Entity	Total Equity
EQUITY BALANCE DECEMBER 31, 2016	\$9	\$ 1,133	\$7,109,012	\$(707,479 )	\$ 1,144	\$ 235,976	\$ 2,306	\$6,642,101
Net income attributable to controlling interests	—	—	—	204,929	—	7,600	—	212,529
Other comprehensive loss - derivative instruments	—	—	—	—	(354 )	(14 )	—	(368 )
Issuance and registration of common shares	—	1	153	—	—	—	—	154
Issuance and registration of preferred shares	—	—	2,007	—	—	—	—	2,007
Shares repurchased and retired	—	—	(4,782 )	—	—	—	—	(4,782 )
Exercise of stock options	—	—	218	—	—	—	—	218
Shares issued in exchange for common units	—	—	1,133	—	—	(1,133 )	—	—
Shares issued in exchange for redeemable stock	—	—	1,482	—	—	—	—	1,482
Redeemable stock fair market value adjustment	—	—	—	(870 )	—	—	—	(870 )
Adjustment for noncontrolling interests in Operating Partnership	—	—	54	—	—	(54 )	—	—
Amortization of unearned compensation	—	—	8,552	(114 )	—	—	—	8,438
Dividends on preferred stock	—	—	—	(2,766 )	—	—	—	(2,766 )
Dividends on common stock	—	—	—	(296,535 )	—	—	—	(296,535 )
Dividends on noncontrolling interests units	—	—	—	—	—	(10,982 )	—	(10,982 )
EQUITY BALANCE SEPTEMBER 30, 2017	\$9	\$ 1,134	\$7,117,829	\$(802,835 )	\$ 790	\$ 231,393	\$ 2,306	\$6,550,626

## 5. MAALP Capital

Changes in total capital and its components for the nine months ended September 30, 2018 and 2017 were as follows (dollars in thousands):

	Mid-America Apartments, L.P. Unitholders' Capital					
	Limited Partner	General Partner	Preferred Units	Accumulated Other Comprehensive Income	Noncontrolling Interest - Consolidated Real Estate Entity	Total Partnership Capital
CAPITAL BALANCE DECEMBER 31, 2017	\$231,676	\$6,270,758	\$66,840	\$ 2,295	\$ 2,306	\$6,573,875
Net income	5,888	158,851	2,766	—	—	167,505
Other comprehensive income - derivative instruments	—	—	—	9,501	—	9,501
Issuance of units	—	(271 )	—	—	—	(271 )
Units repurchased and retired	—	(2,912 )	—	—	—	(2,912 )
Exercise of unit options	—	916	—	—	—	916
General partner units issued in exchange for limited partner units	(4,283 )	4,283	—	—	—	—
Units issued in exchange for redeemable units	—	1,915	—	—	—	1,915
Redeemable units fair market value adjustment	—	121	—	—	—	121
Adjustment for limited partners' capital at redemption value	(226 )	226	—	—	—	—
Cumulative adjustment due to adoption of ASU 2017-12	—	(233 )	—	233	—	—
Amortization of unearned compensation	—	9,877	—	—	—	9,877
Distributions to preferred unitholders	—	—	(2,766 )	—	—	(2,766 )
Distributions to common unitholders	(11,214 )	(315,012 )	—	—	—	(326,226 )
CAPITAL BALANCE SEPTEMBER 30, 2018	\$221,841	\$6,128,519	\$66,840	\$ 12,029	\$ 2,306	\$6,431,535

	Mid-America Apartments, L.P. Unitholders' Capital					
	Limited Partner	General Partner	Preferred Units	Accumulated Other Comprehensive Income	Noncontrolling Interest - Consolidated Real Estate Entity	Total Partnership Capital
CAPITAL BALANCE DECEMBER 31, 2016	\$235,976	\$6,337,721	\$64,833	\$ 1,246	\$ 2,306	\$6,642,082
Net income	7,600	202,163	2,766	—	—	212,529
Other comprehensive income - derivative instruments	—	—	—	(368 )	—	(368 )
Issuance of units	—	154	2,007	—	—	2,161



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Units repurchased and retired	—	(4,782 )	—	—	—	(4,782 )
Exercise of unit options	—	218	—	—	—	218
General partner units issued in exchange for limited partner units	(1,133 )	1,133	—	—	—	—
Units issued in exchange for redeemable units	—	1,482	—	—	—	1,482
Redeemable units fair market value adjustment	—	(870 )	—	—	—	(870 )
Adjustment for limited partners' capital at redemption value	(68 )	68	—	—	—	—
Amortization of unearned compensation	—	8,438	—	—	—	8,438
Distributions to preferred unitholders	—	—	(2,766 )	—	—	(2,766 )
Distributions to common unitholders	(10,982 )	(296,535 )	—	—	—	(307,517 )
CAPITAL BALANCE SEPTEMBER 30, 2017	\$231,393	\$6,249,190	\$66,840	\$ 878	\$ 2,306	\$6,550,607

## 6. Borrowings

The following table summarizes the Company's outstanding debt as of September 30, 2018 (dollars in thousands):

	Borrowed Balance	Effective Rate	Contract Maturity <sup>(2)</sup>
Unsecured debt			
Variable rate revolving credit facility	\$370,000	3.1 %	4/15/2020
Fixed rate senior notes	2,642,000	4.0 %	7/12/2025
Term loans fixed with swaps	300,000	2.3 %	3/1/2022
Variable rate term loans	300,000	3.1 %	8/29/2020
Fair market value adjustments, debt issuance costs and discounts	(29,376 )		
Total unsecured debt	\$3,582,624	3.7 %	
Fixed rate secured debt			
Individual property mortgages	\$836,513	4.0 %	11/1/2019
Variable rate secured debt <sup>(1)</sup>			
Fannie Mae Facility	80,000	2.7 %	12/1/2018
Fair market value adjustments and debt issuance costs	4,886		
Total secured debt	\$921,399	3.9 %	
Total outstanding debt	\$4,504,023	3.7 %	

<sup>(1)</sup> Includes capped balances.

<sup>(2)</sup> Represents the weighted average contract maturity date.

## Unsecured Revolving Credit Facility

MAALP maintains a \$1.0 billion unsecured credit facility with a syndicate of banks led by KeyBank National Association, or the KeyBank Facility. The KeyBank Facility includes an expansion option up to \$1.5 billion. The KeyBank Facility bears an interest rate of the one month London Interbank Offered Rate, or LIBOR, plus a spread of 0.85% to 1.55% based on an investment grade pricing grid and, as of September 30, 2018, bears interest at 3.06%. The KeyBank Facility expires in April 2020 with an option to extend for an additional six months. At September 30, 2018, MAALP had \$370.0 million outstanding under the KeyBank Facility with another approximately \$1.9 million of additional capacity used to support outstanding letters of credit.

## Senior Unsecured Notes

As of September 30, 2018, MAALP had approximately \$2.4 billion in principal amount of publicly issued senior unsecured notes and \$242.0 million of privately placed senior unsecured notes. These senior unsecured notes had maturities at issuance ranging from seven to twelve years, averaging 6.8 years remaining until maturity as of September 30, 2018.

On May 14, 2018 MAALP publicly issued \$400.0 million in aggregate principal amount of notes, maturing on June 15, 2028 with an interest rate of 4.20% per annum, or the 2028 Notes. The purchase price paid by the initial purchasers was 99.403% of the principal amount. The 2028 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 2028 Notes is payable on June 15 and December 15 of each year, beginning on December 15, 2018. The net proceeds from the offering, after deducting the original issue discount of approximately \$2.4 million and underwriting commissions and expenses of approximately \$2.6 million, were approximately \$395.0 million. The 2028 Notes have been reflected net of discount and debt issuance costs in the Condensed Consolidated Balance Sheet as of September 30, 2018. In connection with the issuance of the 2028 Notes, MAALP cash settled \$200.0 million in forward interest rate swap agreements, entered into earlier in the year to effectively lock the interest rate on the

planned transaction, which produced an effective interest rate of 4.21% over the ten year life of the 2028 Notes.

In July 2018, the Company retired a \$50.0 million tranche of senior unsecured private placement notes at maturity.

#### Unsecured Term Loans

The Company maintains three term loans, each with a syndicate of banks, one led by U.S. Bank National Association, or U.S. Bank, one led by KeyBank National Association, or KeyBank, and one led by Wells Fargo Bank, N.A., or Wells Fargo, respectively. The U.S. Bank term loan has a balance of \$150.0 million, matures in 2020, and has a variable interest rate of LIBOR plus a spread of 0.90% to 1.90% based on the Company's credit ratings. The KeyBank term loan has a balance of \$150.0 million, matures in 2021, and has a variable interest rate of LIBOR plus a spread of 0.90% to 1.75% based on the Company's credit ratings. The Wells Fargo term loan has a balance of \$300.0 million, matures in 2022 and has a variable interest rate of LIBOR plus a spread of 0.90% to 1.75% based on the Company's credit ratings.

In August 2018, the Company retired a \$250.0 million unsecured term loan with Wells Fargo at maturity.

#### Secured Property Mortgages

As of September 30, 2018, the Company had \$836.5 million of fixed rate conventional property mortgages with an average interest rate of 4.0% and an average maturity in 2019.

In February 2018, the Company retired a \$38.3 million mortgage associated with Highlands of West Village. The mortgage was scheduled to mature in May 2018. In addition to the debt retirement, the Company paid \$7.9 million associated with property mortgage principal amortizations during the nine months ended September 30, 2018.

#### Secured Credit Facility

The Company maintains an \$80.0 million secured credit facility with Prudential Mortgage Capital, which is credit enhanced by the Federal National Mortgage Association, or the Fannie Mae Facility. The Fannie Mae Facility matures on December 3, 2018. Borrowings under the Fannie Mae Facility totaled \$80.0 million at September 30, 2018, all of which were variable rate borrowings at an average interest rate of 2.7%.

#### Guarantees

As of September 30, 2018, MAA fully and unconditionally guarantees the following debt incurred by MAALP:

\$80.0 million of the Fannie Mae Facility, all of which was borrowed as of September 30, 2018; and  
\$242.0 million of the privately placed senior unsecured notes.

### 7. Financial Instruments and Derivatives

#### Financial Instruments Not Carried at Fair Value

Cash and cash equivalents, restricted cash, and accrued expenses and other liabilities are carried at amounts that reasonably approximate their fair value due to their short term nature. Fixed rate notes payable at September 30, 2018 and December 31, 2017, totaled \$3.5 billion and \$3.2 billion, respectively, and had estimated fair values of \$3.5 billion and \$3.3 billion (excluding prepayment penalties) as of September 30, 2018 and December 31, 2017, respectively. The carrying values of variable rate notes payable (excluding the effect of interest rate swap and cap agreements) at September 30, 2018 and December 31, 2017, totaled \$1.1 billion and \$1.3 billion, respectively, and had estimated fair values of \$1.1 billion and \$1.3 billion (excluding prepayment penalties) as of September 30, 2018 and December 31, 2017, respectively. The fair values of fixed rate debt are determined by using the present value of future cash outflows discounted with the applicable current market rate plus a credit spread. The fair values of variable rate debt are determined using the stated variable rate plus the current market credit spread. The variable rates reset every 30 to 90 days, and management concluded that these rates reasonably estimate current market rates. Management has determined the inputs used to value the outstanding debt fall within Level 2 of the fair value hierarchy, and therefore, the fair market valuation of debt is considered Level 2 in the fair value hierarchy.

#### Financial Instruments Measured at Fair Value on a Recurring Basis

The Company uses interest rate swaps and interest rate caps to add stability to interest expense and to manage its exposure to interest rate movements. The fair values of interest rate swaps are determined using the market standard methodology of netting the discounted future fixed cash receipts (or payments) and the discounted expected variable cash payments (or receipts). The variable cash payments (or receipts) are based on an expectation of future interest

rates (forward curves) derived from observable market interest rate curves.

The fair values of interest rate options are determined using the market standard methodology of discounting the future expected cash receipts that would occur if variable interest rates rise above the strike rate of the caps. The variable interest rates used in the calculation of projected receipts on the cap are based on an expectation of future interest rates derived from observable market interest rate curves and volatilities. The fair value of interest rate derivative contracts designated as hedging instruments recorded in "Other assets" in the accompanying Condensed Consolidated Balance Sheets was \$10.5 million and \$3.6 million as of September 30, 2018 and December 31, 2017, respectively. The fair value of interest rate derivative contract liabilities recorded in "Accrued expenses and other liabilities" in the accompanying Condensed Consolidated Balance Sheets was \$1.3 million as of December 31, 2017. There were no interest rate derivative contract liabilities as of September 30, 2018.

To comply with the provisions of ASC Topic 820, management incorporates credit valuation adjustments to appropriately reflect both its nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. In adjusting the fair value of the derivative contracts for the effect of nonperformance risk, the Company has considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts and guarantees. Based on guidance issued by the FASB, the Company made an accounting policy election to measure the credit risk of its derivative financial instruments that are subject to master netting agreements on a net basis by counterparty portfolio.

The derivative asset related to the redemption feature embedded in the MAA Series I preferred stock issued in connection with the merger with Post Properties is valued using widely accepted valuation techniques, including a discounted cash flow analysis in which the perpetual value of the preferred shares is compared to the value of the preferred shares assuming the call option is exercised, with the value of the bifurcated call option as the difference between the two values. This analysis reflects the contractual terms of the redeemable preferred shares, which are redeemable at the Company's option beginning on October 1, 2026 and at the redemption price of \$50 per share (see Note 8). The analysis uses observable market-based inputs, including trading data available on the preferred shares, coupon yields on preferred stock issuances from REITs with similar credit ratings as MAA and treasury rates to determine the fair value of the bifurcated call option.

The redemption feature embedded in the MAA Series I preferred stock is reported as a derivative asset in "Other assets" in the accompanying Condensed Consolidated Balance Sheets and is adjusted to its fair value at each reporting date, with a corresponding non-cash adjustment to "Other non-operating (expense) income" in the accompanying Condensed Consolidated Statements of Operations. As a result of mark-to-market adjustments of non-cash expense recorded to reflect the change in fair value of the derivative asset in the nine months ended September 30, 2018, the fair value of the embedded derivative slightly decreased to \$20.9 million as of September 30, 2018 compared to \$21.2 million as of December 31, 2017. The Company has determined the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, and as a result, all of its derivatives held as of September 30, 2018 and December 31, 2017 were classified as Level 2 in the fair value hierarchy.

#### Cash Flow Hedges of Interest Rate Risk

As of January 1, 2018, the Company early adopted ASU 2017-12, Derivatives and Hedging (Topic 815), which clarifies hedge accounting requirements, improves disclosure of hedging arrangements and better aligns risk management activities and financial reporting for hedging relationships. The Company adopted the standard using a modified retrospective approach via the elimination of the previously recorded cumulative ineffectiveness for cash flow and net investment hedges existing at date of adoption as a cumulative-effect adjustment of \$0.2 million to accumulated other comprehensive income with a corresponding adjustment to the opening balance of retained earnings. The adoption of the ASU did not have a material impact on the consolidated financial statements or the Company's internal accounting policies.

The 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. In conjunction with the adoption of ASU 2017-12, as long as a hedging instrument is designated and the results of the effectiveness testing support that the instrument qualifies for hedge accounting treatment, there is no periodic measurement or recognition of ineffectiveness. Rather, the full impact of hedge gains and losses will be recognized in the period in which hedged transactions impact earnings, regardless of whether or not economic mismatches exist in the hedging relationship.

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 the Company's variable rate or

fixed rate debt. During the next twelve months, the Company estimates that an additional \$3.9 million will be reclassified to earnings as a decrease to "Interest expense", which primarily represents the difference between the fixed interest rate swap payments and the projected variable interest rate swap receipts.

As of September 30, 2018, the Company 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 Amount
Interest Rate Cap	1	\$25,000,000
Interest Rate Swaps <sup>(1)</sup>	10	\$300,000,000

Six forward rate swaps totaling \$300.0 million, which hedge the first 10 years of interest payments on debt anticipated to be issued in the future are included in the number of instruments but excluded from the notional amount. These swaps are not included in the debt discussion in Note 6 or Management's Discussion and Analysis of Financial Condition and Results of Operations found elsewhere in this Quarterly Report on Form 10-Q.

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

The tables below present the effect of the Company's derivative financial instruments on the Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2018 and 2017 (dollars in thousands):

Derivatives in Cash Flow Hedging Relationships	Amount of Gain (Loss)		Location of Gain (Loss) Recognized in OCI on Derivative from Accumulated OCI into Income	Amount of Gain (Loss) Reclassified from Accumulated OCI into Interest Expense <sup>(1)</sup>	
	2018	2017		2018	2017
Three months ended September 30, Interest rate contracts	\$4,245	\$90	Interest Expense	\$ 548	\$ 33

Nine months ended September 30, Interest rate contracts	\$10,797	\$(1,252)	Interest Expense	\$ 1,296	\$(884 )
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<sup>(1)</sup> See Note 4 for changes in accumulated other comprehensive income as these changes are presented net of the allocation to noncontrolling interests.

Derivatives Not Designated as Hedging Instruments	Location of (Loss) Gain Recognized in Income on Derivative	Amount of (Loss) Gain Recognized in Earnings on Derivative
For the three months ended September 30, Preferred stock embedded derivative	Other non-operating income	2018 2017 \$(433) \$4,107
For the nine months ended September 30, Preferred stock embedded derivative	Other non-operating income	\$(284)