

MID AMERICA APARTMENT COMMUNITIES INC
Form 10-Q
August 03, 2012

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 June 30, 2012
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: 1-12762

MID-AMERICA APARTMENT COMMUNITIES, INC.

(Exact name of registrant as specified in its charter)

TENNESSEE

62-1543819

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer Identification No.)

6584 POPLAR AVENUE

MEMPHIS, TENNESSEE

38138

(Address of principal executive offices)

(Zip Code)

(901) 682-6600

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

☒ Yes ☐ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§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).

☒ Yes ☐ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting

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company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☐ (Do not check if a smaller reporting company)

Smaller reporting company ☐

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

☐ Yes ☒ No

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

Class	Number of Shares Outstanding at July 30, 2012
Common Stock, \$0.01 par value	41,103,516

MID-AMERICA APARTMENT COMMUNITIES, INC.

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Condensed Consolidated Balance Sheets

June 30, 2012 and December 31, 2011

(Unaudited)

(Dollars in thousands, except share data)

	June 30, 2012	December 31, 2011
Assets:		
Real estate assets:		
Land	\$358,429	\$333,846
Buildings and improvements	2,966,313	2,879,289
Furniture, fixtures and equipment	94,975	92,170
Development and capital improvements in progress	75,552	53,790
	3,495,269	3,359,095
Less accumulated depreciation	(990,936)	(961,724)
	2,504,333	2,397,371
Land held for future development	1,306	1,306
Commercial properties, net	7,865	8,125
Investments in real estate joint ventures	6,202	17,006
Real estate assets, net	2,519,706	2,423,808
Cash and cash equivalents	22,341	57,317
Restricted cash	1,038	1,362
Deferred financing costs, net	14,859	14,680
Other assets	28,542	29,195
Goodwill	4,106	4,106
Assets held for sale	8,496	—
Total assets	\$2,599,088	\$2,530,468
Liabilities and Shareholders' Equity:		
Liabilities:		
Secured notes payable	\$1,226,421	\$1,514,755
Unsecured notes payable	363,000	135,000
Accounts payable	5,582	2,091
Fair market value of interest rate swaps	27,648	33,095
Accrued expenses and other liabilities	89,941	91,718
Security deposits	6,586	6,310
Liabilities associated with assets held for sale	9,250	—
Total liabilities	1,728,428	1,782,969
Redeemable stock	4,697	4,037
Shareholders' equity:		
Common stock, \$0.01 par value per share, 100,000,000 shares authorized; 41,101,427 and 38,959,338 shares issued and outstanding at June 30, 2012 and December 31, 2011, respectively ⁽¹⁾		389
Additional paid-in capital	1,494,172	1,375,623
Accumulated distributions in excess of net income	(624,304)	(621,833)

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Accumulated other comprehensive losses	(30,891	) (35,848	)
Total MAA shareholders' equity	839,387	718,331	
Noncontrolling interest	26,576	25,131	
Total equity	865,963	743,462	
Total liabilities and equity	\$2,599,088	\$2,530,468	

Number of shares issued and outstanding represent total shares of common stock regardless of classification on the (1) consolidated balance sheet. The number of shares classified as redeemable stock on the consolidated balance sheet for June 30, 2012 and December 31, 2011 are 68,837 and 65,771, respectively.
See accompanying notes to consolidated financial statements.

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Condensed Consolidated Statements of Operations

Three and six months ended June 30, 2012 and 2011

(Unaudited)

(Dollars in thousands, except per share data)

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Operating revenues:				
Rental revenues	\$113,783	\$97,996	\$222,111	\$192,517
Other property revenues	9,930	8,942	19,506	17,761
Total property revenues	123,713	106,938	241,617	210,278
Management fee income	209	263	478	486
Total operating revenues	123,922	107,201	242,095	210,764
Property operating expenses:				
Personnel	14,322	13,134	28,634	25,783
Building repairs and maintenance	4,014	3,619	7,864	6,798
Real estate taxes and insurance	14,420	12,182	28,151	24,214
Utilities	6,933	6,148	13,162	12,031
Landscaping	2,760	2,634	5,639	5,238
Other operating	8,459	8,005	16,630	15,319
Depreciation and amortization	31,549	27,280	61,821	54,140
Total property operating expenses	82,457	73,002	161,901	143,523
Acquisition expenses	865	1,520	231	1,739
Property management expenses	5,570	5,194	11,024	10,338
General and administrative expenses	3,462	5,439	6,909	10,049
Income from continuing operations before non-operating items	31,568	22,046	62,030	45,115
Interest and other non-property income	112	114	254	459
Interest expense	(14,270)	(13,945)	(28,486)	(27,704)
(Loss) gain on debt extinguishment	(15)	(48)	5	(48)
Amortization of deferred financing costs	(869)	(707)	(1,640)	(1,422)
Net casualty gain (loss) after insurance and other settlement proceeds	2	(265)	(2)	(406)
(Loss) gain on sale of non-depreciable assets	(3)	22	(3)	16
Income from continuing operations before loss from real estate joint ventures	16,525	7,217	32,158	16,010
Loss from real estate joint ventures	(67)	(178)	(98)	(423)
Income from continuing operations	16,458	7,039	32,060	15,587
Discontinued operations:				
Income from discontinued operations before gain on sale	63	641	154	1,255
Asset impairment on discontinued operations	—	—	(71)	—
Net casualty loss after insurance and other settlement proceeds on discontinued operations	(2)	—	(56)	(7)
Gain on sale of discontinued operations	12,953	—	22,453	—
Consolidated net income	29,472	7,680	54,540	16,835
Net income attributable to noncontrolling interests	1,312	252	2,490	563
Net income attributable to MAA	28,160	7,428	52,050	16,272
Net income available for common shareholders	\$28,160	\$7,428	\$52,050	\$16,272

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Earnings per common share - basic:

Income from continuing operations available for common shareholders	\$0.37	\$0.18	\$0.73	\$0.41
Discontinued property operations	0.32	0.02	0.56	0.04
Net income available for common shareholders	\$0.69	\$0.20	\$1.29	\$0.45

Earnings per share - diluted:

Income from continuing operations available for common shareholders	\$0.37	\$0.18	\$0.73	\$0.41
Discontinued property operations	0.32	0.02	0.56	0.03
Net income available for common shareholders	\$0.69	\$0.20	\$1.29	\$0.44

Dividends declared per common share	\$0.6600	\$0.6275	\$1.3200	\$1.2550
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See accompanying notes to consolidated financial statements.

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Condensed Consolidated Statements of Comprehensive Income

Three and Six months ended June 30, 2012 and 2011

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Consolidated net income	\$29,472	\$7,680	\$54,540	\$16,835
Other comprehensive income:				
Unrealized losses from the effective portion of derivative instruments	(3,991)	(8,026)	(5,293)	(8,203)
Reclassification adjustment for losses included in net income for the effective portion of derivative instruments	4,944	7,374	10,492	15,012
Total comprehensive income	30,425	7,028	59,739	23,644
Less: comprehensive income attributable to noncontrolling interests	(1,354)	(229)	(2,732)	(793)
Comprehensive income attributable to MAA	\$29,071	\$6,799	\$57,007	\$22,851

See accompanying notes to consolidated financial statements.

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Condensed Consolidated Statements of Cash Flows

Six Months Ended June 30, 2012 and 2011

(Unaudited)

(Dollars in thousands)

	Six months ended June 30,	
	2012	2011
Cash flows from operating activities:		
Consolidated net income	\$54,540	\$16,835
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	64,341	57,318
Stock compensation expense	1,231	1,686
Redeemable stock issued	285	293
Amortization of debt premium	(316)	(180)
Loss from investments in real estate joint ventures	98	423
(Gain) loss on debt extinguishment	(5)	48
Derivative interest expense	358	222
Loss on sale of non-depreciable assets	3	6
Gain on sale of discontinued operations	(22,453)	—
Net casualty loss and other settlement proceeds	58	406
Changes in assets and liabilities:		
Restricted cash	102	(113)
Other assets	(63)	1,943
Accounts payable	3,498	1,012
Accrued expenses and other	(1,118)	3,714
Security deposits	305	(62)
Net cash provided by operating activities	100,864	83,551
Cash flows from investing activities:		
Purchases of real estate and other assets	(96,906)	(185,901)
Normal capital improvements	(26,380)	(22,798)
Construction capital and other improvements	(2,304)	(2,983)
Renovations to existing real estate assets	(6,896)	(6,005)
Development	(42,592)	(8,658)
Distributions from real estate joint ventures	10,779	828
Contributions to real estate joint ventures	(73)	(1,373)
Proceeds from disposition of real estate assets	51,133	320
Net cash used in investing activities	(113,239)	(226,570)
Cash flows from financing activities:		
Net change in credit lines	(232,064)	(12,817)
Proceeds from notes payable	150,000	150,350
Principal payments on notes payable	(1,757)	(101,612)
Payment of deferred financing costs	(1,997)	(1,700)
Repurchase of common stock	(1,640)	(2,260)
Proceeds from issuances of common shares	120,148	125,737
Distributions to noncontrolling interests	(2,559)	(2,719)
Dividends paid on common shares	(52,732)	(45,064)
Net cash (used in) provided by financing activities	(22,601)	109,915

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Net decrease in cash and cash equivalents	(34,976)	(33,104)
Cash and cash equivalents, beginning of period	57,317	45,942
Cash and cash equivalents, end of period	\$22,341	\$12,838

Supplemental disclosure of cash flow information:

Interest paid	\$30,441	\$28,034
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Supplemental disclosure of noncash investing and financing activities:

Conversion of units to shares of common stock	\$2,516	\$2,878
Accrued construction in progress	\$6,818	\$6,775
Interest capitalized	\$1,289	\$459
Marked-to-market adjustment on derivative instruments	\$4,841	\$6,587
Reclassification of redeemable stock to liabilities	\$—	\$151
Fair value adjustment on debt assumed	\$2,578	\$—
Debt assumed	\$30,290	\$—

See accompanying notes to consolidated financial statements.

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Notes to Condensed Consolidated Financial Statements

June 30, 2012 and 2011

(Unaudited)

1. Consolidation and Basis of Presentation and Significant Accounting Policies

Consolidation and Basis of Presentation

Mid-America Apartment Communities, Inc., or we, or MAA, is a self-administered real estate investment trust, or REIT, that owns, acquires, renovates, develops and manages apartment communities in the Sunbelt region of the United States. As of June 30, 2012, we owned or owned interests in a total of 168 multifamily apartment communities comprising 49,002 apartments located in 13 states, including two communities comprising 626 apartments owned through our joint venture, Mid-America Multifamily Fund I, LLC, and four communities comprising 1,156 apartments owned through our joint venture, Mid-America Multifamily Fund II, LLC. In addition, we also had three development communities and a second phase to an existing community under construction totaling 1,220 units as of June 30, 2012. A total of 405 units for the development projects were completed as of June 30, 2012, and therefore have been included in the totals above. Total expected costs for the development projects are \$143.6 million, of which \$97.1 million has been incurred to date. We expect to complete construction on three of the projects by the fourth quarter 2012, with the last project being completed by the fourth quarter 2013. Four of our properties include retail components with approximately 104,000 square feet of gross leasable area.

The accompanying unaudited condensed consolidated financial statements have been prepared by our management in accordance with United States generally accepted accounting principles, or GAAP, for interim financial information and applicable rules and regulations of the Securities and Exchange Commission, or the SEC, and our accounting policies as set forth in our December 31, 2011 annual consolidated financial statements. The accompanying unaudited condensed consolidated financial statements include our accounts and those of our subsidiaries, including Mid-America Apartments, L.P. In our opinion, all adjustments necessary for a fair presentation of the condensed consolidated financial statements have been included and all such adjustments were of a normal recurring nature except for an approximately \$655,000 out of period adjustment related to the capitalization of land acquisition costs recorded during the first quarter of 2012. All significant intercompany accounts and transactions have been eliminated in consolidation. The results of operations for the three and six month periods ended June 30, 2012 are not necessarily indicative of the results to be expected for the full year. These financial statements should be read in conjunction with our audited financial statements and notes thereto included in our Annual Report on Form 10-K filed with the SEC on February 24, 2012.

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the dates of the financial statements and the amounts of revenues and expenses during the reporting periods. Actual amounts realized or paid could differ from those estimates.

Earnings per Common Share

Basic earnings per share is computed by dividing net income attributable to common shareholders by the weighted average number of shares outstanding during the period. All outstanding unvested restricted share awards contain rights to non-forfeitable dividends and participate in undistributed earnings with common shareholders and, accordingly, are considered participating securities that are included in the two class method of computing basic earnings per share. Both the unvested restricted shares and other potentially dilutive common shares, and the related impact to earnings, are considered when calculating earnings per share on a diluted basis with our diluted earnings per

share being the more dilutive of the treasury stock or two class methods. Operating partnership units are included in dilutive earnings per share calculations when they are dilutive to earnings per share. For the three and six month periods ended June 30, 2012 and 2011, our basic earnings per share is computed using the two class method and our diluted earnings per share is computed using the more dilutive of the treasury stock method or two class method as follows:

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(dollars and shares in thousands, except per share amounts)	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Shares Outstanding				
Weighted average common shares - basic	40,983	36,836	40,243	36,274
Weighted average partnership units outstanding	—	(1) 1,982	—	(1) 2,041
Effect of dilutive securities	45	105	84	105
Weighted average common shares - diluted	41,028	38,923	40,327	38,420
Calculation of Earnings per Share - basic				
Net income available for common shareholders	\$28,160	\$7,428	\$52,050	\$16,272
Net income allocated to unvested restricted shares	(25)	(2)	(54)	(11)
Net income available for common shareholders, adjusted	\$28,135	\$7,426	\$51,996	\$16,261
Weighted average common shares - basic	40,983	36,836	40,243	36,274
Earnings per share - basic	\$0.69	\$0.20	\$1.29	\$0.45
Calculation of Earnings per Share - diluted				
Net income available for common shareholders	\$28,160	\$7,428	\$52,050	\$16,272
Net income attributable to noncontrolling interests	—	(1) 252	—	(1) 563
Adjusted net income available for common shareholders	\$28,160	\$7,680	\$52,050	\$16,835
Weighted average common shares - diluted	41,028	38,923	40,327	38,420
Earnings per share - diluted	\$0.69	\$0.20	\$1.29	\$0.44

(1) Operating partnership units are not included in dilutive earnings per share calculations for the three or six months ended June 30, 2012, as they were not dilutive.

2. Segment Information

As of June 30, 2012, we owned or had an ownership interest in 168 multifamily apartment communities in 13 different states from which we derived all significant sources of earnings and operating cash flows. Senior management evaluates performance and determines resource allocations by reviewing apartment communities individually and in the following reportable operating segments:

• Large market same store communities are generally communities:

in markets with a population of at least one million and at least 1% of the total public multifamily REIT units; and that we have owned and have been stabilized for at least a full 12 months and have not been classified as held for sale.

• Secondary market same store communities are generally communities:

in markets with populations of more than one million but less than one percent of the total public multifamily REIT units or in markets with a population of less than one million; and

that we have owned and have been stabilized for at least a full 12 months and have not been classified as held for sale.

Non same store communities and other includes recent acquisitions, communities in development or lease-up and communities that have been classified as held for sale. Also included in non same store communities are non multifamily activities which represent less than 1% of our portfolio

On the first day of each calendar year, we determine the composition of our same store operating segments for that year as well as adjusting the previous year, which allows us to evaluate full period-over-period operating comparisons. We utilize net operating income, or NOI, in evaluating the performance of the segments. Total NOI represents total property revenues less total property operating expenses, excluding depreciation and amortization, for all properties held during the period regardless of their status as held for sale. We believe NOI is a helpful tool in

evaluating the operating performance of our segments

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because it measures the core operations of property performance by excluding corporate level expenses and other items not related to property operating performance.

Revenues and NOI for each reportable segment for the three and six month periods ended June 30, 2012 and 2011, were as follows (dollars in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Revenues				
Large Market Same Store	\$56,133	\$53,014	\$111,140	\$105,284
Secondary Market Same Store	47,955	46,510	95,455	92,366
Non-Same Store and Other	19,625	7,414	35,022	12,628
Total property revenues	123,713	106,938	241,617	210,278
Management fee income	209	263	478	486
Total operating revenues	\$123,922	\$107,201	\$242,095	\$210,764
NOI				
Large Market Same Store	\$32,748	\$30,401	\$64,846	\$60,677
Secondary Market Same Store	28,224	26,829	56,007	53,881
Non-Same Store and Other	12,423	5,736	22,058	9,923
Total NOI	73,395	62,966	142,911	124,481
Discontinued operations NOI included above	(590)	(1,750)	(1,374)	(3,586)
Management fee income	209	263	478	486
Depreciation and amortization	(31,549)	(27,280)	(61,821)	(54,140)
Acquisition credit (expense)	(865)	(1,520)	(231)	(1,739)
Property management expense	(5,570)	(5,194)	(11,024)	(10,338)
General and administrative expense	(3,462)	(5,439)	(6,909)	(10,049)
Interest and other non-property income	112	114	254	459
Interest expense	(14,270)	(13,945)	(28,486)	(27,704)
Gain on debt extinguishment	(15)	(48)	5	(48)
Amortization of deferred financing costs	(869)	(707)	(1,640)	(1,422)
Net casualty loss and other settlement proceeds	2	(265)	(2)	(406)
Loss on sale of non-depreciable assets	(3)	22	(3)	16
Loss from real estate joint ventures	(67)	(178)	(98)	(423)
Discontinued operations	13,014	641	22,480	1,248
Net income attributable to noncontrolling interests	(1,312)	(252)	(2,490)	(563)
Net income attributable to MAA	\$28,160	\$7,428	\$52,050	\$16,272

Assets for each reportable segment as of June 30, 2012 and December 31, 2011, were as follows (dollars in thousands):

	June 30, 2012	December 31, 2011
Assets		
Large Market Same Store	\$1,125,282	\$1,017,015
Secondary Market Same Store	664,165	668,109
Non-Same Store and Other	755,800	760,132
Corporate assets	53,841	85,212
Total assets	\$2,599,088	\$2,530,468

3. Equity

Total equity and its components for the six month periods ended June 30, 2012, and 2011, were as follows (dollars in thousands, except per share and per unit data):

	Mid-America Apartment Communities, Inc. Shareholders						
	Common Stock Amount	Additional Paid-In Capital	Accumulated Distributions in Excess of Net Income	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest	Total Equity	
EQUITY BALANCE DECEMBER 31, 2011	\$ 389	\$ 1,375,623	\$ (621,833)	\$ (35,848)	\$ 25,131	\$ 743,462	
Net income			52,050		2,490	54,540	
Other comprehensive income - derivative instruments (cash flow hedges)				4,957	242	5,199	
Issuance and registration of common shares	20	120,130				120,150	
Shares repurchased and retired	—	(1,640)				(1,640)	
Shares issued in exchange for units 1		2,515			(2,516)	—	
Redeemable stock fair market value			(375)			(375)	
Adjustment for noncontrolling interest ownership in operating partnership		(3,687)			3,687	—	
Amortization of unearned compensation		1,231				1,231	
Dividends on common stock (\$0.6600 per share)			(54,146)			(54,146)	
Dividends on noncontrolling interest units (\$0.6600 per unit)					(2,458)	(2,458)	
EQUITY BALANCE JUNE 30, 2012	\$ 410	\$ 1,494,172	\$ (624,304)	\$ (30,891)	\$ 26,576	\$ 865,963	

	Mid-America Apartment Communities, Inc. Shareholders						
	Common Stock Amount	Additional Paid-In Capital	Accumulated Distributions in Excess of Net Income	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest	Total Equity	
EQUITY BALANCE DECEMBER 31, 2010	\$ 348	\$ 1,142,023	\$ (575,021)	\$ (48,847)	\$ 22,125	\$ 540,628	
Net income			16,272		563	16,835	
Other comprehensive income - derivative instruments (cash flow hedges)				6,579	230	6,809	
Issuance and registration of common shares	21	125,679				125,700	
Shares repurchased and retired	—	(2,260)				(2,260)	
Exercise of stock options	—	38				38	
Shares issued in exchange for units 2		2,876			(2,878)	—	
Redeemable stock fair market value		(5,189)	(235)			(235)	
					5,189	—	

Adjustment for noncontrolling
interest ownership in operating
partnership

Amortization of unearned compensation		1,686				1,686
Dividends on common stock (\$0.6275 per share)			(46,332)			(46,332)
Dividends on noncontrolling interest units (\$0.6275 per unit)				(2,569)		(2,569)
EQUITY BALANCE JUNE 30, 2011	\$ 371	\$ 1,264,853	\$ (605,316)	\$ (42,268)	\$ 22,660	\$ 640,300

4. Real Estate Acquisitions

On April 2, 2012, we purchased Adalay Bay, a 240 unit apartment community located in Chesapeake, Virginia.

On April 5, 2012, we purchased Legacy at Western Oaks, a 479 unit apartment community located in Austin, Texas. This property was purchased directly from one of our joint ventures, Mid-America Multifamily Fund II, LLC.

On May 10, 2012, we purchased Allure in Buckhead Village, a 230 unit apartment community with approximately 23,000 square feet of retail space located in Atlanta, Georgia.

5. Discontinued Operations

As part of our portfolio strategy to selectively dispose of mature assets that no longer meet our investment criteria and long-term strategic objectives, and in accordance with accounting standards governing the disposal of long lived assets, the 320-unit Kenwood Club apartments in Katy (Houston), Texas, the 276-unit Cedar Mill apartments in Memphis, Tennessee, the 410-unit Celery Stalk apartments in Dallas, Texas, and the 200-unit TPC Florence apartments in Florence (Louisville), Kentucky are presented as discontinued operations in the accompanying condensed consolidated financial statements. These first three properties were sold on January 12, 2012, February 9, 2012, and June 7, 2012 respectively, and resulted in a gain of approximately \$22.5 million, which is included in discontinued operations. TPC Florence is considered held for sale since earnest money was received and was non-refundable as of June 8, 2012.

The following is a summary of discontinued operations for the three and six month periods ended June 30, 2012 and 2011, (dollars in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Revenues				
Rental revenues	\$ 1,069	\$ 3,376	\$ 2,651	\$ 6,740
Other revenues	123	411	304	825
Total revenues	1,192	3,787	2,955	7,565
Expenses				
Property operating expenses	623	2,070	1,637	4,119
Depreciation and amortization	373	873	879	1,754
Interest expense	133	203	285	437

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Total expense	1,129	3,146	2,801	6,310
Income from discontinued operations before gain on sale	63	641	154	1,255
Asset impairment on discontinued operations	—	—	(71	) —
Net loss on insurance and other settlement proceeds on discontinued operations	(2	) —	(56	) (7
Gain on sale of discontinued operations	12,953	—	22,453	—
Income from discontinued operations	\$13,014	\$641	\$22,480	\$1,248

6. Share and Unit Information

On June 30, 2012, 41,101,427 common shares and 1,784,208 operating partnership units were issued and outstanding, representing a total of 42,885,635 shares and units. At June 30, 2011, 37,142,477 common shares and 1,951,819 operating partnership units were outstanding, representing a total of 39,094,296 shares and units. Additionally, we had outstanding options for the purchase of 14,457 shares of common stock at June 30, 2011. There were no outstanding options at June 30, 2012.

On July 3, 2008, we entered into a sales agreement with Cantor Fitzgerald & Co. to sell up to 1,350,000 shares of our common stock, from time to time in at-the-market offerings or negotiated transactions through a controlled equity offering program, or ATM. On November 5, 2009, we entered into another sales agreement with Cantor Fitzgerald & Co. with materially the same terms for an additional 4,000,000 shares. On August 26, 2010, we entered into sales agreements with Cantor Fitzgerald & Co., Raymond James & Associates, Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated with materially the same terms as our previous ATM agreements for a combined total of 6,000,000 shares of our common stock.

During the three and six month periods ended June 30, 2011, we issued 528,674 and 1,522,473 shares of common stock, respectively, through our ATM programs for net proceeds of \$34.1 million and \$95.3 million. The gross proceeds for these issuances were \$34.6 million and \$96.8 million respectively. During the three and six month periods ended June 30, 2012, we did not issue any shares through our ATM programs. We have 1,733,526 shares remaining under our ATM program.

On March 2, 2012, we closed on an underwritten public offering of 1,955,000 shares of common stock. UBS Investment Bank and Jeffries & Company, Inc. acted as joint bookrunning managers. We received net proceeds of approximately \$120 million after underwriter discounts. The gross proceeds for this offering were approximately \$124.1 million.

During the three and six month periods ended June 30, 2012, we issued 209 shares and 329 shares of common stock through the optional cash purchase feature of our Dividend and Distribution Reinvestment and Share Purchase Program, or DRSP. The issuances resulted in gross proceeds of \$14,000 and \$22,000. During the three and six month periods ended June 30, 2011, we issued 151 shares and 495,387 shares of common stock through the optional cash purchase feature of our DRSP resulting in gross proceeds of approximately \$10,000 and \$30.0 million.

During the six months ended June 30, 2012, 15,565 shares of MAA's common stock were acquired from employees to satisfy minimum tax withholding obligations that arose upon vesting of restricted stock granted pursuant to approved plans. During the six months ended June 30, 2011, 25,082 shares were acquired for these purposes.

7. Notes Payable

On June 30, 2012 and December 31, 2011, we had total indebtedness of approximately \$1.59 billion and \$1.65 billion, respectively. Our indebtedness as of June 30, 2012 consisted of both conventional and tax exempt debt. Borrowings were made through individual property mortgages as well as company-wide credit facilities. We utilize both secured and unsecured debt.

On March 1, 2012, we entered into a \$150 million unsecured term loan agreement with a syndicate of banks led by Key Bank and J.P. Morgan with a variable rate resetting monthly at LIBOR plus a spread of 1.40% to 2.15% based on a leveraged based pricing grid and a maturity date of March 1, 2017. As of June 30, 2012 the full amount was outstanding under this agreement. Upon reaching an investment grade rating from either Moody's or Standard & Poor's, the variable rate will reset monthly at LIBOR plus a spread of 1.10% to 2.05% based on an investment grade ratings grid.

As of June 30, 2012, approximately 53% of our outstanding debt was borrowed through secured credit facility relationships with Prudential Mortgage Capital, which are credit enhanced by the Federal National Mortgage Association, or FNMA, and Financial Federal, which are credit enhanced by Freddie Mac.

We utilize interest rate swaps and interest rate caps to help manage our current and future interest rate risk and entered into 23 interest rate swaps and 18 interest rate caps as of June 30, 2012, representing notional amounts totaling \$601.8 million and \$256.4 million, respectively. We also held 3 non-designated interest rate caps with notional amounts totaling \$14.3 million as of June 30, 2012.

The following table summarizes our outstanding debt structure as of June 30, 2012 (dollars in thousands):

	Borrowed Balance ⁽²⁾	Effective Rate	Contract Maturity
Fixed Rate Secured Debt			
Individual property mortgages	\$374,738	4.8	% 8/26/2019
FNMA conventional credit facilities	50,000	4.7	% 3/31/2017
Credit facility balances with:			
LIBOR-based interest rate swaps	434,000	5.2	% 1/1/2014
SIFMA-based interest rate swaps	17,800	4.4	% 10/15/2012
Total fixed rate secured debt	\$876,538	5.0	% 7/29/2016
Variable Rate Secured Debt ⁽¹⁾			
FNMA conventional credit facilities	\$197,721	0.8	% 3/18/2016
FNMA tax-free credit facilities	72,715	1.0	% 7/23/2031
Freddie Mac credit facilities	64,247	0.8	% 7/1/2014
Freddie Mac mortgage	15,200	3.6	% 12/10/2015
Total variable rate secured debt	\$349,883	1.0	% 1/27/2019
Total Secured Debt	\$1,226,421	3.9	% 4/15/2017
Unsecured Debt			
Variable rate credit facility	\$78,000	1.7	% 11/1/2015
Term loan fixed with swaps	150,000	2.7	% 3/1/2017
Fixed rate senior private placement bonds	135,000	5.1	% 8/23/2020
Total Unsecured Debt	\$363,000	3.4	% 3/4/2018
Total Outstanding Debt	\$1,589,421	3.8	% 6/28/2017

⁽¹⁾ Includes capped balances.

⁽²⁾ Excludes borrowings on properties categorized as Assets Held for Sale on the Consolidated Balance Sheet. As of June 30, 2012 held for sale properties include a \$9.1 million mortgage with a fixed interest rate of 5.9% maturing on January 1, 2044.

8. Derivatives and Hedging Activities

Risk Management Objective of Using Derivatives

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

Cash Flow Hedges of Interest Rate Risk

Our objectives in using interest rate derivatives are to add stability to interest expense and to manage our exposure to interest rate movements. To accomplish this objective, we use interest rate swaps and interest rate caps as part of our interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable amounts from a

counterparty in exchange for us making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. Interest rate caps designated as cash flow hedges involve the receipt of variable amounts from a counterparty if interest rates rise above the strike rate on the contract in exchange for an up front premium.

The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in accumulated other comprehensive income and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. During the three and six months ended June 30, 2012 and 2011, such derivatives were used to hedge the variable cash flows associated with existing variable-rate debt. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. During the three months ended June 30, 2012 and 2011, we recorded ineffectiveness of \$23,000 and \$101,000, respectively, and during the six months ended June 30, 2012 and 2011, we recorded ineffectiveness of \$33,000 and \$96,000, respectively, as an increase to interest expense attributable to a mismatch in the underlying indices of the derivatives and the hedged interest payments made on our variable-rate debt.

During the six months ended June 30, 2012, we also had six interest rate caps with a total notional amount of \$31.7 million, where only the changes in intrinsic value are recorded in accumulated other comprehensive income. Changes in fair value of these interest rate caps due to changes in time value (e.g. volatility, passage of time, etc.) are excluded from effectiveness testing and are recognized directly in earnings. During the three months ended June 30, 2012 and 2011, we recorded a loss of less than \$1,000 and \$3,000, respectively, and during the six months ended June 30, 2012 and 2011, we recorded a loss of less than \$1,000 and a loss of \$6,000, respectively, due to changes in the time value of these interest rate caps.

Amounts reported in accumulated other comprehensive income related to derivatives designated as qualifying cash flow hedges will be reclassified to interest expense as interest payments are made on our variable-rate debt. During the next twelve months, we estimate that an additional \$17.3 million will be reclassified to earnings as an increase to interest expense, which primarily represents the difference between our fixed interest rate swap payments and the projected variable interest rate swap payments.

As of June 30, 2012, we had the following outstanding interest rate derivatives that were designated as cash flow hedges of interest rate risk:

Interest Rate Derivative	Number of Instruments	Notional
Interest Rate Caps	18	\$256,371,000
Interest Rate Swaps	23	\$601,800,000

Non-designated Hedges

Derivatives not designated as hedges are not speculative and are used to manage the Company's exposure to interest rate movements and other identified risks but do not meet the strict hedge accounting requirements of FASB ASC 815, Derivatives and Hedging. Changes in the fair value of derivatives not designated in hedging relationships are recorded directly in earnings and resulted in a loss of \$9,000 for the three months ended June 30, 2012 and a loss of \$33,000 for the six months ended June 30, 2012. We did not have any derivatives not designated as hedges for the three and six months ended June 30, 2011.

As of June 30, 2012, we had the following outstanding interest rate derivatives that were not designated as hedges:

Interest Rate Derivative	Number of Instruments	Notional
Interest rate caps	3	\$14,280,000

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

The table below presents the fair value of our derivative financial instruments as well as their classification on the Consolidated Balance Sheet as of June 30, 2012 and December 31, 2011, respectively:

Fair Values of Derivative Instruments on the Consolidated Balance Sheet as of June 30, 2012 and December 31, 2011 (dollars in thousands)

	Asset Derivatives		Liability Derivatives	
		June 30, 2012	December 31, 2011	
Derivatives designated as hedging instruments	Balance Sheet Location	Fair Value	Fair Value	Balance Sheet Location Fair market value of interest rate swaps
Interest rate contracts	Other assets	\$402	\$975	\$27,648
Total derivatives designated as hedging instruments		\$402	\$975	\$33,095
Derivatives not designated as hedging instruments				
Interest rate contracts	Other assets	\$10	\$43	\$—
Total derivatives not designated as hedging instruments		\$10	\$43	\$—

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

The table below presents the effect of our derivative financial instruments on the Consolidated Statements of Operations for the three and six months ended June 30, 2012 and 2011, respectively.

Effect of Derivative Instruments on the Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2012 and 2011 (dollars in thousands)

Derivatives in Cash Flow Hedging Relationships	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)		Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)		Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	
	2012	2011		2012	2011		2012	2011
Three months ended June 30,								
Interest rate contracts	\$(3,991)	\$(8,026)	Interest expense	\$(4,944)	\$(7,374)	Interest expense	\$(23)	\$(10)
Total derivatives in cash flow hedging relationships	\$(3,991)	\$(8,026)		\$(4,944)	\$(7,374)		\$(23)	\$(10)
Six months ended June 30,								
Interest rate contracts	\$(5,293)	\$(8,203)	Interest expense	\$(10,492)	\$(15,012)	Interest expense	\$(33)	\$(10)
Total derivatives in cash flow hedging relationships	\$(5,293)	\$(8,203)		\$(10,492)	\$(15,012)		\$(33)	\$(10)
Derivatives Not Designated as Hedging Instruments								
Three months ended June 30,			Location of Gain or (Loss) Recognized in Income	2012	2011			
Interest rate products			Interest expense	\$(9)	\$—			
Total				\$(9)	\$—			

Six months ended June
30,

Interest rate products	Interest expense	\$(33	) \$—
Total		\$(33	) \$—

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Credit-risk-related Contingent Features

As of June 30, 2012, derivatives that were in a net liability position and subject to credit-risk-related contingent features had a termination value of \$30.2 million, which includes accrued interest but excludes any adjustment for nonperformance risk. These derivatives had a fair value, gross of asset positions, of \$27.6 million at June 30, 2012.

Certain of our derivative contracts contain a provision where if we default on any of our indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then we could also be declared in default on our derivative obligations. As of June 30, 2012, we had not breached the provisions of these agreements. If we had breached these provisions, we could have been required to settle our obligations under the agreements at their termination value of \$15.2 million.

Certain of our derivative contracts contain a provision where we could be declared in default on our derivative obligations if repayment of the underlying indebtedness is accelerated by the lender due to the Company's default on the indebtedness. As of June 30, 2012, we had not breached the provisions of these agreements. If we had breached these provisions, we could have been required to settle our obligations under the agreements at the termination value of \$2.2 million.

Certain of our derivative contracts are credit enhanced by either FNMA or Freddie Mac. These derivative contracts require that our credit enhancing party maintain credit ratings above a certain level. If our credit support providers were downgraded below Baa1 by Moody's or BBB+ by Standard & Poor's, or S&P, we may be required to either post 100 percent collateral or settle the obligations at their termination value of \$28.0 million as of June 30, 2012. Both FNMA and Freddie Mac are currently rated Aaa by Moody's and AA+ by S&P, and therefore, the provisions of this agreement have not been breached and no collateral has been posted related to these agreements as of June 30, 2012.

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

See also discussions in Item 1. Financial Statements – Notes to Consolidated Financial Statements, Note 9.

9. Fair Value Disclosure of Financial Instruments

Cash and cash equivalents, restricted cash, accounts payable, accrued expenses and other liabilities and security deposits are carried at amounts that reasonably approximate their fair value due to their short term nature.

On January 1, 2008, we adopted Financial Accounting Standards Board, or FASB, ASC 820 Fair Value Measurements and Disclosures, or ASC 820. ASC 820 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. ASC 820 applies to reported balances that are required or permitted to be measured at fair value under existing accounting pronouncements; accordingly, the standard does not require any new fair value measurements of reported balances.

ASC 820 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, ASC 820 establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that we have the ability to access. Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability (other than quoted prices), such as interest rates, foreign exchange rates, and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity. In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

Fixed rate notes payable at June 30, 2012 and December 31, 2011, totaled \$569 million and \$538 million, respectively, and had estimated fair values of \$613 million and \$560 million (excluding prepayment penalties), respectively, as of June 30, 2012 and December 31, 2011. The carrying value of variable rate notes payable (excluding the effect of interest rate swap and cap agreements) at June 30, 2012 and December 31, 2011, totaled \$1,030 million and \$1,112 million, respectively, and had estimated fair values of \$983 million and \$1,053 million (excluding prepayment penalties), respectively, as of June 30, 2012 and December 31, 2011. The valuation of our debt is determined using widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each debt instrument. This analysis reflects the contractual terms of the debt, and uses observable market-based inputs, including interest rate curves and credit spreads. The fair values of fixed 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 debt are determined using the stated variable rate plus the current market credit spread. Our variable rates reset every 30 to 90 days and we conclude that these rates reasonably estimate current market rates. We have determined that inputs used to value our debt fall within Level 2 of the fair value hierarchy and therefore our fair market valuation of debt is considered Level 2 in the fair value hierarchy.

Currently, we use interest rate swaps and interest rate caps (options) to manage our interest rate risk. The valuation of these instruments is determined using widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves and implied volatilities. 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.

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

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We have determined that the majority of the inputs used to value our derivatives fall within Level 2 of the fair value hierarchy, and as a result, all of our derivatives held as of June 30, 2012 and December 31, 2011 were classified as Level 2 of the fair value hierarchy.

The table below presents our assets and liabilities measured at fair value on a recurring basis as of June 30, 2012 and December 31, 2011, aggregated by the level in the fair value hierarchy within which those measurements fall.

Assets and Liabilities Measured at Fair Value on a Recurring Basis at June 30, 2012

(dollars in thousands)

	Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance At June 30, 2012
Assets				
Derivative financial instruments	\$—	\$412	\$—	\$412
Liabilities				
Derivative financial instruments	\$—	\$27,648	\$—	\$27,648

Assets and Liabilities Measured at Fair Value on a Recurring Basis at December 31, 2011

(dollars in thousands)

	Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance At December 31, 2011
Assets				
Derivative financial instruments	\$—	\$1,018	\$—	\$1,018
Liabilities				
Derivative financial instruments	\$—	\$33,095	\$—	\$33,095

The fair value estimates presented herein are based on information available to management as of June 30, 2012 and December 31, 2011. These estimates are not necessarily indicative of the amounts we could ultimately realize. See also discussions in Item 1. Financial Statements – Notes to Consolidated Financial Statements, Note 8.

10. Recent Accounting Pronouncements

Impact of Recently Issued Accounting Standards

In June 2011, the FASB issued Accounting Standards Update (ASU) No. 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income. This ASU allows an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. The amendments do not change the items that must be reported in other

comprehensive income or when an item of other comprehensive income must be reclassified to net income. ASU 2011-05 is applied retrospectively. The amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. We adopted ASU 2011-05 during the reporting period ended December 31, 2011, and this changed the presentation of our financial statements but not our consolidated financial condition or results of operations taken as a whole.

In November 2011, the FASB issued Accounting Standards Update (ASU) No. 2011-12, Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05. This ASU supersedes certain paragraphs in ASU 2011-05 addressing reclassification adjustments out of accumulated other comprehensive income. The effective dates and changes to our presentation are the same as noted in ASU 2011-05 above.

In May 2011, the FASB issued Accounting Standards Update (ASU) No. 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. The amendments change the wording, mainly for clarification, used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. For many of the requirements, the Board does not intend for the amendments in this update to result in a change in the application of the requirements in Topic 820. The amendments in this ASU are to be applied prospectively. The amendments are effective during interim and annual periods beginning after December 15, 2011. We have adopted ASU 2011-04 for the interim and annual periods of fiscal year 2012. The adoption of ASU 2011-04 has not had a material impact on our consolidated financial condition or results of operations taken as a whole.

11. Subsequent Events

Real Estate Acquisitions

On July 23, 2012, we closed on the purchase of Allure at Brookwood, a 349 unit community located in Atlanta, Georgia.

Real Estate Dispositions

On July 25, 2012, we closed on the sale of the 150 unit Westbury Springs apartment community located in Lilburn, (Atlanta) Georgia.

On July 25, 2012, we closed on the sale of the 320 unit Hidden Lake apartment community located in Union City, (Atlanta) Georgia.

On July 26, 2012, we closed on the sale of the 124 unit Park Walk apartment community located in College Park, (Atlanta) Georgia.

On August 1, 2012, we closed on the sale of the 200 unit TPC Florence apartment community located in Florence, (Louisville) Kentucky.

Financing Activity

On July 26, 2012, we expanded our Key Bank line of credit from \$250 million to \$325 million.

On July 8, 2012, we paid off the balance of \$9.1 million on the mortgage for TPC at Florence.

On July 17, 2012, we received an investment grade rating (Baa2) from Moody's rating service. This new rating, combined with the existing BBB rating from Fitch Ratings, allows the Company's unsecured credit facility and unsecured term loan to revert to a "built-in" investment grade pricing option, effectively reducing costs of outstanding borrowings between 30bps and 40bps below the pricing in effect at the end of the first quarter.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion should be read in conjunction with the condensed consolidated financial statements and notes appearing elsewhere in this report. Historical results and trends that might appear in the condensed consolidated financial statements should not be interpreted as being indicative of future operations.

Forward Looking Statements

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

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

inability to generate sufficient cash flows due to market conditions, changes in supply and/or demand, competition, uninsured losses, changes in tax and housing laws, or other factors;
 the availability of credit, including mortgage financing, and the liquidity of the debt markets, including a material deterioration of the financial condition of the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation;
 inability to replace financing with the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation should their investment in the multifamily industry shrink or cease to exist;
 inability to acquire funding through the capital markets;
 failure of new acquisitions to achieve anticipated results or be efficiently integrated;
 failure of development communities to be completed, if at all, on a timely basis or to lease-up as anticipated;
 increasing real estate taxes and insurance costs;
 inability of a joint venture to perform as expected;
 inability to acquire additional or dispose of existing apartment units on favorable economic terms;
 unexpected capital needs;
 losses from catastrophes in excess of our insurance coverage;
 changes in interest rate levels, including that of variable rate debt, such as extensively used by us;
 loss of hedge accounting treatment for interest rate swaps or interest rate caps;
 inability to pay required distributions to maintain REIT status;
 the continuation of the good credit of our interest rate swap and cap providers;
 inability to meet loan covenants;
 significant decline in market value of real estate serving as collateral for mortgage obligations;
 imposition of federal taxes if we fail to qualify as a REIT under the Internal Revenue Code in any taxable year or foregone opportunities to ensure REIT status;
 inability to attract and retain qualified personnel;
 potential liability for environmental contamination;
 • adverse legislative or regulatory tax changes;
 and
 litigation and compliance costs associated with laws requiring access for disabled persons.

Critical Accounting Policies and Estimates

The following discussion and analysis of financial condition and results of operations are based upon our condensed consolidated financial statements, and the notes thereto, which have been prepared in accordance with GAAP. The preparation of these condensed consolidated financial statements requires us to make a number of estimates and assumptions that affect the reported amounts and disclosures in the condensed consolidated financial statements. On an ongoing basis, we evaluate our estimates and assumptions based upon historical experience and various other factors and circumstances. We believe that our estimates and assumptions are reasonable under the circumstances; however, actual results may differ from these estimates and assumptions.

We believe that the estimates and assumptions listed below are most important to the portrayal of our financial condition and results of operations because they require the greatest subjective determinations and form the basis of accounting policies deemed to be most critical. These critical accounting policies include revenue recognition, capitalization of expenditures and depreciation and amortization of assets, impairment of long-lived assets, including goodwill, acquisition of real estate assets and fair value of derivative financial instruments.

Revenue Recognition

We lease multifamily residential apartments under operating leases primarily with terms of one year or less. Rental revenues are recognized using a method that represents a straight-line basis over the term of the lease and other revenues are recorded when earned. We record all gains and losses on real estate in accordance with accounting standards governing the sale of real estate.

Capitalization of expenditures and depreciation and amortization of assets

We carry real estate assets at depreciated cost. Depreciation and amortization is computed on a straight-line basis over the estimated useful lives of the related assets, which range from 8 to 40 years for land improvements and buildings, 5 years for furniture, fixtures, and equipment, 3 to 5 years for computers and software, and 6 months amortization for acquired leases, all of which are subjective determinations. Repairs and maintenance costs are expensed as incurred while significant

improvements, renovations and replacements are capitalized. The cost to complete any deferred repairs and maintenance at properties acquired by us in order to elevate the condition of the property to our standards is capitalized as incurred.

Development costs are capitalized in accordance with accounting standards for costs and initial rental operations of real estate projects and standards for the capitalization of interest cost, real estate taxes and personnel expense.

Impairment of long-lived assets, including goodwill

We account for long-lived assets in accordance with the provisions of accounting standards for the impairment or disposal on long-lived assets and evaluate our goodwill for impairment under accounting standards for goodwill and other intangible assets. We evaluate goodwill for impairment on at least an annual basis, or more frequently if a goodwill impairment indicator is identified. We periodically evaluate long-lived assets, including investments in real estate and goodwill, for indicators that would suggest that the carrying amount of the assets may not be recoverable. The judgments regarding the existence of such indicators are based on factors such as operating performance, market conditions and legal factors.

Long-lived assets, such as real estate assets, equipment and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of are separately presented on the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held for sale are presented separately in the appropriate asset and liability sections of the balance sheet.

Goodwill is tested annually for impairment and is tested for impairment more frequently if events and circumstances indicate that the asset might be impaired. An impairment loss for goodwill is recognized to the extent that the carrying amount exceeds the implied fair value of goodwill. This determination is made at the reporting unit level and consists of two steps. First, we determine the fair value of a reporting unit and compare it to its carrying amount. In the apartment industry, the primary method used for determining fair value is to divide annual operating cash flows by an appropriate capitalization rate. We determine the appropriate capitalization rate by reviewing the prevailing rates in a property's market or submarket. Second, if the carrying amount of a reporting unit exceeds its fair value, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation in accordance with accounting standards for business combinations. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill.

Acquisition of real estate assets

We account for our acquisitions of investments in real estate in accordance with ASC 805-10, Business Combinations, which requires the fair value of the real estate acquired to be allocated to the acquired tangible assets, consisting of land, building and furniture, fixtures and equipment, and identified intangible assets, consisting of the value of in-place leases.

We allocate the purchase price to the fair value of the tangible assets of an acquired property (which includes the land, building, and furniture, fixtures, and equipment) determined by valuing the property as if it were vacant, based on management's determination of the relative fair values of these assets. Management determines the as-if-vacant fair

value of a property using methods similar to those used by independent appraisers. These methods include using stabilized NOI and market specific capitalization and discount rates.

In allocating the fair value of identified intangible assets of an acquired property, the in-place leases are valued based on current rent rates and time and cost to lease a unit. Management concluded that the residential leases acquired on each of its property acquisitions are approximately at market rates since the residential lease terms generally do not extend beyond one year.

Fair value of derivative financial instruments

We utilize certain derivative financial instruments, primarily interest rate swaps and interest rate caps, during the normal course of business to manage, or hedge, the interest rate risk associated with our variable rate debt or as hedges in anticipation of future debt transactions to manage well-defined interest rate risk associated with the transaction.

In order for a derivative contract to be designated as a hedging instrument, changes in the hedging instrument must be highly

effective at offsetting changes in the hedged item. The historical correlation of the hedging instruments and the underlying hedged items are assessed before entering into the hedging relationship and on a quarterly basis thereafter, and have been found to be highly effective.

We measure ineffectiveness using the change in the variable cash flows method or the hypothetical derivative method for interest rate swaps and the hypothetical derivative method for interest rate caps for each reporting period through the term of the hedging instruments. Any amounts determined to be ineffective are recorded in earnings. The change in fair value of the interest rate swaps and the intrinsic value or fair value of interest rate caps designated as cash flow hedges are recorded to accumulated other comprehensive income in the Condensed Consolidated Balance Sheet.

The valuation of our derivative financial instruments is determined using widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each derivative. The fair values of interest rate swaps are determined using the market standard methodology of netting the discounted future fixed cash payments and the discounted expected variable cash receipts. The variable cash 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 caps 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 interest rate caps. The variable interest rates used in the calculation of projected receipts on the interest rate cap are based on an expectation of future interest rates derived from observable market interest rate curves and volatilities. Additionally, we incorporate credit valuation adjustments to appropriately reflect both our own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. Changes in the fair values of our derivatives are primarily the result of fluctuations in interest rates. See Notes 8 and 9 of the accompanying Condensed Consolidated Financial Statements.

Overview of the Three Months Ended June 30, 2012

We experienced an increase in income from continuing operations before non-operating items for the three months ended June 30, 2012 over the three months ended June 30, 2011 as increases in revenues outpaced increases in property operating expenses. The increases in revenues came from a 5.9% increase in our large market same store segment, a 3.1% increase in our secondary market same store segment and a 164.7% increase in our non-same store and other segment, which was primarily a result of acquisitions. Our same store portfolio represents those communities that have been held and have been stabilized for at least 12 months. Communities excluded from the same store portfolio would include recent acquisitions, communities being developed or in lease-up, communities undergoing extensive renovations, and communities identified as discontinued operations.

As of June 30, 2012, our wholly-owned portfolio consisted of 47,220 apartment units in 162 communities, compared to 45,928 apartment units in 157 communities at June 30, 2011. For these communities, the average effective rent per apartment unit, excluding units in lease-up, increased to \$828 per unit at June 30, 2012 from \$762 per unit at June 30, 2011. For these same communities, overall occupancy at June 30, 2012 and 2011 was 96.0% and 96.3%, respectively. Average effective rent per unit is equal to the average of gross rent amounts after the effect of leasing concessions for occupied units plus prevalent market rates asked for unoccupied units, divided by the total number of units. Leasing concessions represent discounts to the current market rate. We believe average effective rent is a helpful measurement in evaluating average pricing. It does not represent actual rental revenue collected per unit.

The following is a discussion of our consolidated financial condition and results of operations for the three and six month periods ended June 30, 2012 and 2011. This discussion should be read in conjunction with all of the consolidated financial statements included in this Quarterly Report on Form 10-Q.

Results of Operations

Comparison of the Three Month Period Ended June 30, 2012 to the Three Month Period Ended June 30, 2011

Property revenues for the three months ended June 30, 2012 were approximately \$123.7 million, an increase of approximately \$16.8 million from the three months ended June 30, 2011 due to (i) a \$3.1 million increase in property revenues from our large market same store group primarily as a result of an increase in average rent per unit, (ii) a \$1.5 million increase in property revenues from our secondary market same store group primarily as a result of an increase in average rent per unit, and (iii) a \$12.2 million increase in property revenues from our non-same store and other group, primarily as a result of acquisitions.

Property operating expenses include costs for property personnel, property personnel bonuses, building repairs and maintenance, real estate taxes and insurance, utilities, landscaping and depreciation and amortization. Property operating

expenses, excluding depreciation and amortization, for the three months ended June 30, 2012 were approximately \$50.9 million, an increase of approximately \$5.2 million from the three months ended June 30, 2011 due primarily to increases in property operating expenses of (i) \$0.8 million from our large market same store group, (ii) \$0.1 million from our secondary market same store group, and (iii) \$4.3 million from our non-same store and other group, primarily as a result of acquisitions.

Depreciation and amortization expense for the three months ended June 30, 2012 was approximately \$31.5 million, an increase of approximately \$4.3 million from the three months ended June 30, 2011 primarily due to the increases in depreciation and amortization expense of (i) \$0.3 million from our large market same store group, (ii) \$0.4 million from our secondary market same store group, and (iii) \$3.6 million from our non-same store and other group, mainly as a result of acquisitions. Increases of depreciation and amortization expense from our primary and secondary market same store groups resulted from asset additions made during the normal course of business.

During the three months ended June 30, 2012, we sold one property for a gain of \$13.0 million. There was no gain or loss from sale of property in the three months ended June 30, 2011.

General and administrative expense for the three months ended June 30, 2012, was approximately \$3.5 million, a decrease of approximately \$2.0 million from the three months ended June 30, 2011 primarily due to a non cash adjustment of \$1.8 million related to stock compensation in the second quarter of 2011.

Primarily as a result of the foregoing, net income attributable to MAA increased by approximately \$20.7 million in the three months ended June 30, 2012 from the three months ended June 30, 2011.

Comparison of the Six Month Period Ended June 30, 2012 to the Six Month Period Ended June 30, 2011

Property revenues for the six months ended June 30, 2012 were approximately \$241.6 million, an increase of approximately \$31.3 million from the six months ended June 30, 2011 due to (i) a \$5.9 million increase in property revenues from our large market same store group primarily as a result of an increase in average rent per unit, (ii) a \$3.1 million increase in property revenues from our secondary market same store group primarily as a result of an increase in average rent per unit, and (iii) a \$22.3 million increase in property revenues from our non-same store and other group, primarily as a result of acquisitions.

Property operating expenses include costs for property personnel, property personnel bonuses, building repairs and maintenance, real estate taxes and insurance, utilities, landscaping and depreciation and amortization. Property operating expenses, excluding depreciation and amortization, for the six months ended June 30, 2012 were approximately \$100.1 million, an increase of approximately \$10.7 million from the six months ended June 30, 2011 due primarily to increases in property operating expenses of (i) \$1.7 million from our large market same store group, (ii) \$1.0 million from our secondary market same store group, and (iii) \$8.0 million from our non-same store and other group, primarily as a result of acquisitions.

Depreciation and amortization expense for the six months ended June 30, 2012 was approximately \$61.8 million, an increase of approximately \$7.7 million from the six months ended June 30, 2011 primarily due to the increases in depreciation and amortization expense of (i) \$0.3 million from our large market same store group, (ii) \$0.7 million from our secondary market same store group, and (iii) \$6.7 million from our non-same store and other group, mainly as a result of acquisitions. Increases of depreciation and amortization expense from our secondary market same store group resulted from asset additions made during the normal course of business.

General and administrative expenses for the six months ended June 30, 2012 were approximately \$6.9 million, a decrease of approximately \$3.1 million compared to the six months ended June 30, 2011 primarily due to a non-cash

adjustment of \$1.8 million related to stock compensation during 2011.

Acquisition expense for the six months ended June 30, 2012 was approximately \$0.2 million, a decrease of approximately \$1.5 million compared to the six months ended June 30, 2011.

During the six months ended June 30, 2012, we sold three properties for a gain of \$22.5 million. There was no gain or loss from sale of property in the six months ended June 30, 2011.

Primarily as a result of the foregoing, net income attributable to MAA increased by approximately \$35.8 million in the six months ended June 30, 2012 from the six months ended June 30, 2011.

Funds From Operations and Net Income

Funds from operations, or FFO, represents net income attributable to MAA (computed in accordance with GAAP), excluding extraordinary items, asset impairment, gains or losses on disposition of real estate assets, plus depreciation of real estate, and adjustments for joint ventures to reflect FFO on the same basis. This definition of FFO is in accordance with the National Association of Real Estate Investment Trust's, or NAREIT, definition. Disposition of real estate assets includes sales of discontinued operations as well as proceeds received from insurance and other settlements from property damage.

Our policy is to expense the cost of interior painting, vinyl flooring and blinds as incurred for stabilized properties. During the stabilization period for acquisition properties, these items are capitalized as part of the total repositioning program of newly acquired properties, and thus are not deducted in calculating FFO.

FFO should not be considered as an alternative to net income attributable to MAA or any other GAAP measurement of performance, as an indicator of operating performance, or as an alternative to cash flow from operating, investing and financing activities as a measure of liquidity. We believe that FFO is helpful to investors in understanding our operating performance in that such calculation excludes depreciation and amortization expense on real estate assets. We believe that GAAP historical cost depreciation of real estate assets is generally not correlated with changes in the value of those assets, whose value does not diminish predictably over time. Our calculation of FFO may differ from the methodology for calculating FFO utilized by other REITs and, accordingly, may not be comparable to such other REITs.

The following table is a reconciliation of FFO to net income attributable to MAA for the three and six month periods ended June 30, 2012, and 2011 (dollars in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Net income attributable to MAA	\$28,160	\$7,428	\$52,050	\$16,272
Depreciation and amortization of real estate assets	30,952	26,728	60,638	53,059
Asset impairment on discontinued operations	—	—	71	—
Net casualty loss and other settlement proceeds	(2	) 265	2	406
Net casualty loss and other settlement proceeds of discontinued operations	2	—	56	7
Depreciation and amortization of real estate assets of discontinued operations	374	875	880	1,756
(Gain) on sales of discontinued operations	(12,953	) —	(22,453	) —
Depreciation and amortization of real estate assets of real estate joint ventures	438	627	995	1,141
Net income attributable to noncontrolling interests	1,312	252	2,490	563
Funds from operations	\$48,283	\$36,175	\$94,729	\$73,204

FFO for the three and six month periods ended June 30, 2012 increased approximately \$12.1 million and \$21.5 million, respectively from the three and six month periods ended June 30, 2011 primarily as a result of the increases in property revenues of approximately \$16.8 million and \$31.3 million discussed above that were only partially offset by the \$5.2 million and \$10.7 million increase in property operating expenses, excluding depreciation and amortization.

Trends

During the three months ended June 30, 2012, rental demand for apartments continued to be strong as compared to the same period in 2011 and the prior quarter. Average same store physical occupancy for the quarter exceeded 96%, higher than the first quarter of 2012, while same store average effective rent per unit continued to increase. Average same store effective rent per unit was up 5.2% over prior year and 1.8% over the first quarter of 2012. Average effective rent per unit is equal to the average of gross rent amounts after the effect of leasing concessions for occupied units plus prevalent market rates asked for unoccupied units, divided by the total number of units. Leasing concessions represent discounts to the current market rate. We believe average effective rent is a helpful measurement in evaluating average pricing. It does not represent actual rental revenue collected per unit. In addition, the average price for both new leases and renewals signed trended up from the first quarter to the

second quarter of 2012, indicating continuing strength in the rental market.

As mentioned above, the continued strength in pricing and occupancy through the three months ended June 30, 2012 is encouraging. However, with new employment, one of the primary drivers of apartment demand, continuing to increase at a below average pace, we remain cautious about apartment demand and pricing but optimistic about the long term prospects for apartment demand when measurable job growth returns.

An important part of our portfolio strategy is to maintain a broad diversity of markets across the Sunbelt region of the United States. The diversity of markets tends to mitigate exposure to economic issues in any one geographic market or area. We have found that a well diversified portfolio, including both large and select secondary markets, has tended to perform well in “up” cycles as well as weather “down” cycles better. As of June 30, 2012, we were invested in over 50 separate Sunbelt region markets, with 59% of our gross assets in large markets and 41% of our gross assets in select secondary markets.

We also continue to benefit on the supply side. New supply entering the market was low in 2011 and continues to run well below historical new supply delivery averages. Competition from condominiums reverting back to rental units, or new condominiums being converted to rental, was not a major factor in our portfolio because most of our submarkets have not been primary areas for condominium development. We have found the same to be true for rental competition from single family homes. We have avoided committing a significant amount of capital to markets where most of the excessive inflation in house prices has occurred. We saw significant rental competition from condominiums or single family houses in only a few of our submarkets. We expect this relative new supply compression to be a positive factor to our business as the new supply remains limited.

Our focus through the first six months of 2012 was increasing pricing where possible through our revenue management system, while maintaining strong physical occupancy. As mentioned above, through these efforts, effective rent per unit for the three months ended June 30, 2012 was positive on both a quarter over quarter and sequential quarter basis. At the same time, our average same store physical occupancy (large market same store and secondary market same store segments combined) for the three months ended June 30, 2012 remained relatively consistent (about twenty five basis points lower) with the three months ended June 30, 2011 and improved (up 16 basis points) from the three months ended March 31, 2012. With strong occupancy in place, we expect the positive pricing trend to continue as we move through the busy summer leasing season.

Overall same store revenues increased 4.6% for the three months ended June 30, 2012 as compared to the three months ended June 30, 2011, up from 4.5% same store revenue growth in the first quarter of 2012 as compared to the first quarter of 2011. As expected, we were able to continue to achieve more robust revenue growth as rents continued their upward trend. Although an increase in development is expected, we believe the continued reduced availability of financing for new apartment construction will likely limit new apartment construction to levels well below pre-recession deliveries. Also, more sustainable credit terms for residential mortgages should work to favor rental demand at existing multifamily properties. Long term, we expect demographic trends (including the growth of prime age groups for rentals and immigration and population movement to the southeast and southwest) will continue to build apartment rental demand for our markets.

Should the economy fall back into a recession, the limited new supply of apartments and the more disciplined mortgage financing for single family home buying should lessen the impact to some degree, but a weak economy and employment market would nevertheless limit rent growth prospects.

We continue to develop improved products, operating systems and procedures that enable us to capture more revenues. The continued benefit of ancillary services (such as our cable saver and deposit saver programs), improved collections, and utility reimbursements enable us to capture increased revenue dollars. We also actively work on improving processes and products to reduce expenses, such as new web-sites and internet access for our residents that enable them to transact their business with us more simply and effectively.

Throughout the three months ended June 30, 2012, we continued to have the benefit of lower interest rates resulting from a continued strong market for Federal National Mortgage Association and Federal Home Loan Mortgage Corporation debt securities. Short term interest rates continue to be at historically low levels, and as a result, we are forecasting a continuation of favorable interest rates in the near term with the expectation of rising rates as the economy improves.

Liquidity and Capital Resources

Net cash flow provided by operating activities increased to \$100.9 million for the six months ended June 30, 2012 from \$83.6 million for the six months ended June 30, 2011. This change is mainly a result of cash inflows from property operations induced by the \$16.8 million increase in operating revenue for the six months ended June 30, 2012 from the six months ended June 30, 2011 being above the \$5.2 million increase in property operating expenses, excluding depreciation and amortization, and other incremental operating expenses in total over the same period. The change is also due to the timing of payments of operating liabilities.

Net cash used in investing activities was approximately \$113.2 million during the six months ended June 30, 2012 compared to \$226.6 million during the six months ended June 30, 2011. During the six months ended June 30, 2012, we had \$96.9 million in cash outflows for property acquisitions, compared to approximately \$185.9 million in cash outflows for property acquisitions for the six months ended June 30, 2011. We also had cash outflows of \$26.4 million related to normal recurring capital expenditures for the six months ended June 30, 2012 compared to \$22.8 million for the six months ended June 30, 2011. We also had cash outflows of \$42.6 million related to development activities during the six months ended June 30, 2012 compared to approximately \$8.7 million for the six months ended June 30, 2011. In addition to acquisition costs and development costs, we had outflows of \$6.9 million for renovations to existing real estate assets during the six months ended June 30, 2012, compared to \$6.0 million for the six months ended June 30, 2011. We received approximately \$51.1 million during the six months ended June 30, 2012 primarily related to the disposition of three properties during the period. During the six months ended June 30, 2011, we did not have property dispositions. We received approximately \$10.8 million during the six months ended June 30, 2012 as distributions from our joint ventures compared to \$0.8 million for the six months ended June 30, 2011.

Net cash outflow for financing activities was approximately \$22.6 million for the six months ended June 30, 2012, compared to net cash inflow for financing activities of \$109.9 million during the six months ended June 30, 2011. During the six months ended June 30, 2012, we received net proceeds of approximately \$120.1 million primarily from the issuance of shares of common stock through our March 2, 2012 public offering, and the optional cash purchase feature of our DRSP. We used a portion of the proceeds to fund partially the pay down of our credit lines during the six months ended June 30, 2012. During the six months ended June 30, 2011, we received proceeds of approximately \$125.7 million from the issuance of shares of common stock through our ATM and the optional cash purchase feature of our DRSP. We currently have 1,733,526 shares remaining under our ATM program. We paid down approximately \$83.8 million of debt in the six months ended June 30, 2012 primarily due to cash outflows for the reduction in outstanding debt in the FNMA and FMAC credit facilities compared to incurring \$35.9 million of debt in the six months ended June 30, 2011.

The weighted average interest rate at June 30, 2012 for the \$1.2 billion of secured debt outstanding was 3.9%, compared to the weighted average interest rate of 3.8% on \$1.5 billion of secured debt outstanding at June 30, 2011. The weighted average interest rate at June 30, 2012 for the \$363.0 million of unsecured debt was 3.4%. We did not have unsecured debt outstanding at June 30, 2011. We utilize both conventional and tax exempt debt to help finance our activities. Borrowings are made through individual property mortgages as well as company-wide credit facilities and bond placements. We utilize fixed rate borrowings, interest rate swaps and interest rate caps to manage our current and future interest rate risk. More details on our borrowings can be found in the schedules presented later in this section.

On March 1, 2012, we entered into a \$150 million unsecured term loan agreement with a syndicate of banks lead by Key Bank and J.P. Morgan at a rate of LIBOR plus a spread of 1.40% to 2.15% based on a leveraged based pricing grid and a maturity date of March 1, 2017. We had borrowings of \$150 million outstanding under this agreement at June 30, 2012. Upon reaching an investment grade rating from either Moody's or Standard & Poor's, the variable rate will reset monthly at LIBOR plus a spread of 1.10% to 2.05% based on an investment grade ratings grid.

Approximately 40% of our outstanding obligations at June 30, 2012 were borrowed through credit facilities with/or credit enhanced by FNMA, also referred to as the FNMA Facilities. The FNMA Facilities have a combined line limit of approximately \$964.4 million, of which \$638.2 million was collateralized and available to borrow at June 30, 2012. We had total borrowings outstanding under the FNMA Facilities of \$638.2 million at June 30, 2012. Various tranches of the FNMA Facilities mature from 2012 through 2033. The FNMA Facilities provide for both fixed and variable rate borrowings. The interest rate on the majority of the variable portion is based on the FNMA Discount Mortgage Backed Security, or DMBS, rate, which are credit-enhanced by FNMA and are typically sold every 90 days

by Prudential Mortgage Capital at interest rates approximating three-month London Interbank Offered Rate, or LIBOR, less a spread that has averaged 0.17% over the life of the FNMA Facilities, plus a credit enhancement fee of 0.49% to 0.67%.

Approximately 12% of our outstanding obligations at June 30, 2012 were borrowed through a facility with/or credit enhanced by Freddie Mac, also referred to as the Freddie Mac Facility. The Freddie Mac Facility has a total line limit of \$200.0 million, of which \$198.2 million was collateralized and available to borrow at June 30, 2012. We had total borrowings outstanding under the Freddie Mac Facility of approximately \$198.2 million at June 30, 2012. The Freddie Mac facility matures in 2014. The interest rate on the Freddie Mac Facility renews every 30 or 90 days and is based on the Freddie Mac Reference Bill Rate on the date of renewal, which has historically approximated the equivalent one month or three month LIBOR, plus a credit enhancement fee of 0.65%. The Freddie Mac Reference Bill rate has traded consistently below LIBOR, and the historical average spread is 0.32% below LIBOR.

We also maintain a \$250.0 million unsecured credit facility with nine banks led by Key Bank. The Key Bank Credit Line bears an interest rate of one-month LIBOR plus a spread of 1.65% to 2.40% based on a leveraged based pricing grid. This credit line expires in November 2015 with a one year extension option. At June 30, 2012, we had \$248.8 million available to be borrowed under the Key Bank Credit Line agreement with \$78.0 million borrowed under this facility. Approximately \$1.2 million of the facility is used to support letters of credit. Upon reaching an investment grade rating from either Moody's or Standard & Poor's, the variable rate will reset monthly at LIBOR plus a spread of 1.05% to 1.85% based on an investment grade rating grid.

Each of our credit facilities is subject to various covenants and conditions on usage, and the secured facilities are subject to periodic re-evaluation of collateral. If we were to fail to satisfy a condition to borrowing, the available credit under one or more of the facilities could not be drawn, which could adversely affect our liquidity. In the event of a reduction in real estate values, the amount of available credit could be reduced. Moreover, if we were to fail to make a payment or violate a covenant under a credit facility, one or more of our lenders could declare a default after applicable cure periods, accelerate the due date for repayment of all amounts outstanding and/or foreclose on properties securing such facilities. A default on an obligation to repay outstanding debt could also create a cross default on a separate piece of debt, whereby one or more of our lenders could accelerate the due date for repayment of all amounts outstanding and/or foreclose on properties securing the related facilities. Any such event could have a material adverse effect. We believe we were in compliance with these covenants and conditions on usage at June 30, 2012.

The following debt schedules exclude borrowings on properties categorized as Assets Held for Sale on the Consolidated Balance Sheet. As of June 30, 2012 held for sale properties include a \$9.1 million mortgage with a fixed interest rate of 5.9% maturing on January 1, 2044.

The following schedule details the line limits, availability, outstanding balances and contract maturities of our various borrowings as of June 30, 2012 (dollars in thousands):

	Line Limit	Amount Collateralized and/or Available	Amount Borrowed	Average Years to Contract Maturity
Fannie Mae Credit Facilities	\$964,429	\$638,236	\$638,236	6.0
Freddie Mac Credit Facilities	200,000	198,247	198,247	2.0
Other Secured Borrowings	389,938	389,938	389,938	7.0
Unsecured Credit Facility	250,000	248,827	78,000	3.3
Other Unsecured Borrowings	285,000	285,000	285,000	6.3
Total Debt	\$2,089,367	\$1,760,248	\$1,589,421	5.7

As of June 30, 2012, we had entered into designated interest rate swaps totaling a notional amount of \$601.8 million. To date, these swaps prove to be highly effective hedges. We also entered into interest rate cap agreements totaling a notional amount of approximately \$256.4 million as of June 30, 2012. Four major banks provide approximately 97% of our derivative fair value, all of which have investment grade ratings from Moody's and Standard & Poor's.

The following schedule outlines our variable versus fixed rate debt, including the impact of interest rate swaps and caps, outstanding as of June 30, 2012 (dollars in thousands):

	Principal Balance	Average Years to Rate Maturity	Effective Rate	
SECURED DEBT				
Conventional - Fixed Rate or Swapped	\$858,738	4.2	5.0	%
Tax-free - Fixed Rate or Swapped	17,800	0.3	4.4	%
Conventional - Variable Rate - Capped ^{(1) (2)}	213,136	3.6	1.0	%
Tax-free – Variable Rate - Capped ⁽¹⁾	72,715	1.7	1.0	%
Total Fixed or Hedged Rate Maturity	\$1,162,389	3.8	4.0	%
Conventional - Variable Rate	64,032	0.2	0.8	%
Total Secured Rate Maturity	\$1,226,421	3.7	3.9	%
UNSECURED DEBT				
Fixed Rate or Swapped	\$285,000	6.3	3.9	%
Variable Rate	78,000	—	1.7	%
Total Unsecured Rate Maturity	\$363,000	5.0	3.4	%
TOTAL DEBT RATE MATURITY	\$1,589,421	4.0	3.8	%
TOTAL FIXED OR HEDGED DEBT RATE MATURITY	\$1,447,389	4.3	4.0	%

(1) The effective rate represents the average rate on the underlying variable debt unless the cap rates are reached, which average 4.6% of LIBOR for conventional caps and 5.4% of SIFMA for tax-free caps.

(2) Includes a \$15.2 million mortgage with an embedded cap at a 7% all-in interest rate.

The following schedule outlines the contractual maturity dates of our total borrowings outstanding as of June 30, 2012 (in thousands):

Maturity	Credit Facility Amount Borrowed					Total
	Fannie Mae Secured	Freddie Mac Secured	Key Bank Unsecured	Other Secured ⁽¹⁾	Other Unsecured	
2012	\$—	\$—	\$—	\$—	\$—	\$—
2013	—	—	—	—	—	—
2014	186,721	198,247	—	16,675	—	401,643
2015	120,000	—	78,000	51,155	—	249,155
2016	80,000	—	—	—	—	80,000
2017	80,000	—	—	61,387	150,000	291,387
Thereafter	171,515	—	—	260,721	135,000	567,236
Total	\$638,236	\$198,247	\$78,000	\$389,938	\$285,000	\$1,589,421

Chart does not present the principal amortization of property mortgages with amortizing principal balances. The

(1) total outstanding balances for these mortgages are presented in the year of the contract's maturity. See cash obligation table below for debt maturity requirement by year including the amortization of these balances.

The following schedule outlines the interest rate maturities of our outstanding interest rate swap agreements and fixed rate debt along with our interest rate caps as of June 30, 2012 (dollars in thousands):

	Fixed Rate Debt	Interest Rate Swaps	Total Fixed Rate Balances	Contract Rate	Interest Rate Caps ⁽¹⁾	Total Fixed or Hedged
2012	\$—	\$42,800	\$42,800	4.8	% \$23,795	\$66,595
2013	—	190,000	190,000	5.2	% 7,945	197,945
2014	16,675	144,000	160,675	5.7	% 59,631	220,306
2015	35,955	75,000	110,955	5.6	% 55,200	166,155
2016	—	—	—	—	% 89,280	89,280
2017	111,387	150,000	261,387	2.6	% 25,000	286,387
Thereafter	395,721	—	395,721	5.0	% 25,000	420,721
Total	\$559,738	\$601,800	\$1,161,538	4.7	% \$285,851	\$1,447,389

⁽¹⁾ Includes a \$15.2 million mortgage with an embedded cap at a 7% all-in interest rate.

We believe that we have adequate resources to fund our current operations, annual refurbishment of our properties, and incremental investment in new apartment properties. We rely on the efficient operation of the financial markets to finance debt maturities, and on FNMA and Freddie Mac, or the Agencies, who have now been placed into conservatorship by the United States government, and whose securities are now implicitly government-guaranteed. The Agencies provide credit enhancement for approximately \$836 million of our outstanding debt through credit facilities as of June 30, 2012.

The interest rate markets for FNMA DMBS and Freddie Mac Reference Bills, which in our experience are highly liquid and highly correlated with three-month LIBOR interest rates, are also an important component of our liquidity and interest rate swap and cap effectiveness. Prudential Mortgage Capital, a delegated underwriting and servicing lender for Fannie Mae, markets 90-day Fannie Mae Discount Mortgage Backed Securities monthly, and is obligated to advance funds to us at DMBS rates plus a credit spread under the terms of the credit agreements between Prudential and us. Financial Federal, a Freddie Mac Program Plus Lender and Servicer, is obligated to advance funds under the terms of credit agreements between Financial Federal and us.

For the six months ended June 30, 2012, our net cash provided by operating activities was in excess of funding improvements to existing real estate assets, distributions to unitholders, and dividends paid on common shares by approximately \$19.2 million. This compares to an excess of approximately \$13.0 million for the six months ended June 30, 2011. While we have sufficient liquidity to permit distributions at current rates through additional borrowings, if necessary, any significant deterioration in operations could result in our financial resources being insufficient to pay distributions to shareholders at the current rate, in which event we would be required to reduce the distribution rate.

The following table reflects our total contractual cash obligations as of June 30, 2012 and includes the \$9.1 million fixed rate debt associated with the asset held for sale in the Consolidated Balance Sheet (dollars in thousands):

Contractual Obligations ⁽¹⁾	2012	2013	2014	2015	2016	Thereafter	Total
Long-Term Debt ⁽²⁾	\$2,361	\$5,367	\$405,382	\$251,330	\$84,345	\$849,701	\$1,598,486
Fixed Rate or Swapped Interest ⁽³⁾	25,043	44,547	35,251	29,082	26,468	82,478	242,869

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Purchase Obligations ⁽⁴⁾	7,452	2,253	—	—	—	—	9,705
Operating Leases	5	4	3	1	—	—	13
Total	\$34,861	\$52,171	\$440,636	\$280,413	\$110,813	\$932,179	\$1,851,073

- (1) Fixed rate and swapped interest are shown in this table. The average interest rates of variable rate debt are shown in preceding tables.
- (2) Represents principal payments.
- (3) Swapped interest is subject to the ineffective portion of cash flow hedges as described in Note 8 to the financial statements.
- (4) Represents development fees.

Off-Balance Sheet Arrangements

At June 30, 2012, and 2011, we did not have any relationships with unconsolidated entities or financial partnerships established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. Mid-America Multifamily Fund I, LLC, one of our joint ventures, was established to acquire \$500 million of apartment communities with redevelopment upside offering value creation opportunity through capital improvements, operating enhancements and restructuring in-place financing. As of June 30, 2012, Mid-America Multifamily Fund I, LLC owned two properties but does not expect to acquire any additional communities. Mid-America Multifamily Fund II, LLC, our other joint venture, was established to acquire \$250 million of apartment communities with redevelopment upside offering value creation opportunity through capital improvements, operating enhancements and restructuring in-place financing. As of June 30, 2012, Mid-America Multifamily Fund II, LLC, or Fund II, owned four properties. In addition, we do not engage in trading activities involving non-exchange traded contracts. As such, we are not materially exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such relationships. We do not have any relationships or transactions with persons or entities that derive benefits from their non-independent relationships with us or our related parties other than those disclosed in Item 8. Financial Statements and Supplementary Data - Notes to Consolidated Financial Statements, Note 12 in our 2011 Annual Report on Form 10-K filed on February 24, 2012.

Our investments in our real estate joint ventures are unconsolidated and are recorded using the equity method as we do not have a controlling interest.

Insurance

We renegotiated our insurance programs effective July 1, 2011. We believe that the property and casualty insurance program in place provides appropriate insurance coverage for financial protection against insurable risks such that any insurable loss experienced that can be reasonably anticipated would not have a significant impact on our liquidity, financial position or results of operation.

Inflation

Substantially all of the resident leases at our communities allow, at the time of renewal, for adjustments in the rent payable hereunder, and thus may enable us to seek rent increases. Almost all leases are for one year or less. The short-term nature of these leases generally serves to reduce the risk of the adverse effects of inflation.

Impact of Recently Issued Accounting Standards

In June 2011, the FASB issued Accounting Standards Update (ASU) No. 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income. This ASU allows an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of equity. The amendments do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. ASU 2011-05 is applied retrospectively. The amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011, but allows for early adoption. We adopted ASU 2011-05 during the reporting period ended

December 31, 2011, and this changed the presentation of our financial statements but not our consolidated financial condition or results of operations taken as a whole.

In November 2011, the FASB issued Accounting Standards Update (ASU) No. 2011-12, Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05. This ASU supersedes certain paragraphs in ASU 2011-05 addressing reclassification adjustments out of accumulated other comprehensive income. The effective dates and changes to our presentation are the same as noted in ASU 2011-05 above.

In May 2011, the FASB issued ASU No. 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. The amendments change the wording, mainly for clarification, used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information

about fair value measurements. For many of the requirements, the Board does not intend for the amendments in this update to result in a change in the application of the requirements in Topic 820. The amendments in this ASU are to be applied prospectively. The amendments are effective during interim and annual periods beginning after December 15, 2011. We have adopted ASU 2011-04 in the interim and annual periods of fiscal year 2012. The adoption of ASU 2011-04 has not had a material impact on our consolidated financial condition or results of operations taken as a whole.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We are exposed to interest rate changes associated with our credit facilities and other variable rate debt as well as refinancing risk on our fixed rate debt. Our involvement with derivative financial instruments is limited to managing our exposure to changes in interest rates and we do not expect to use them for trading or other speculative purposes.

There have been no material changes in our market risk as disclosed in the 2011 Annual Report on Form 10-K except for the changes as discussed under Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations under the "Liquidity and Capital Resources" section, which are incorporated by reference herein.

Item 4. Controls and Procedures.

Management's Evaluation of Disclosure Controls and Procedures

Our management, under the supervision and with the participation of our principal executive and financial officers, has evaluated the effectiveness of our disclosure controls and procedures in ensuring that the information required to be disclosed in our filings under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, including ensuring that such information is accumulated and communicated to our management as appropriate to allow timely decisions regarding required disclosure. Based on such evaluation, our principal executive and financial officers have concluded that such disclosure controls and procedures were effective as of June 30, 2012 (the end of the period covered by this Quarterly Report on Form 10-Q).

Changes in Internal Controls

During the quarter ended June 30, 2012, there were no changes in our internal control over financial reporting that materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings.

None.

Item 1A. Risk Factors.

We have identified the following additional risks and uncertainties that may have a material adverse effect on our business, financial condition or results of operations. Investors should carefully consider the risks described below before making an investment decision. Our business faces significant risks and the risks described below may not be the only risks we face. Additional risks not presently known to us or that we currently believe are immaterial may also significantly impair our business operations. If any of these risks occur, our business, results of operations or financial condition could suffer, the market price of our common stock could decline and you could lose all or part of your investment in our common stock.

Risks Related to Our Real Estate Investments and Our Operations

Economic slowdown in the United States and downturns in the housing and real estate markets may adversely affect our financial condition and results of operations

There have been significant declines in economic growth, both in the United States and globally. Both the real estate industry and the broader United States economy have experienced unfavorable conditions which adversely affected our revenues. Although our industry and the United States economy showed signs of improvement in 2010 and 2011 and the first two quarters of 2012, we cannot accurately predict that market conditions will continue to improve in the near future or that our financial condition and results of operations will not continue to be adversely affected. Factors such as weakened economies and related reduction in spending, falling home prices and job losses, price volatility, and/or dislocations and liquidity disruptions in the financial and credit markets could, among other things, impede the ability of our tenants and other parties with which we conduct business to perform their contractual obligations, which could lead to an increase in defaults by our tenants and other contracting parties, which could adversely affect our revenues. Furthermore, our ability to lease our properties at favorable rates, or at all, is adversely affected by increases in supply and deterioration in multifamily markets and is dependent upon the overall level of spending in the economy, which is adversely affected by, among other things, job losses and unemployment levels, recession, personal debt levels, downturns in the housing market, stock market volatility and uncertainty about the future. With regard to our ability to lease our multifamily properties, the increasing rental of excess for-sale condominiums and single family homes, which increases the supply of multifamily units and housing alternatives, may reduce our ability to lease our multifamily units and depress rental rates in certain markets. When we experience a downturn, we cannot predict how long demand and other factors in the real estate market will remain unfavorable, but if the markets remain weak over extended periods of time or deteriorate significantly, our ability to lease our properties or our ability to increase or maintain rental rates in certain markets may weaken.

Failure to generate sufficient cash flows could limit our ability to pay distributions to shareholders

Our ability to generate sufficient cash flow in order to pay distributions to our shareholders depends on our ability to generate funds from operations in excess of capital expenditure requirements and/or to have access to the markets for debt and equity financing. Funds from operations and the value of our apartment communities may be insufficient because of factors which are beyond our control. Such events or conditions could include:

- competition from other apartment communities;
- overbuilding of new apartment units or oversupply of available apartment units in our markets, which might adversely affect apartment occupancy or rental rates and/or require rent concessions in order to lease apartment units;
- conversion of condominiums and single family houses to rental use;
- weakness in the overall economy which lowers job growth and the associated demand for apartment housing;
-

increases in operating costs (including real estate taxes and insurance premiums) due to inflation and other factors, which may not be offset by increased rents;

• inability to initially, or subsequently after lease terminations, rent apartments on favorable economic terms;

• inability to complete or lease-up development communities on a timely basis, if at all;

- changes in governmental regulations and the related costs of compliance;

- changes in laws including, but not limited to, tax laws and housing laws including the enactment of rent control laws or other laws regulating multifamily housing;

- withdrawal of government support of apartment financing through its financial backing of the Federal

National Mortgage Association, or FNMA, or the Federal Home Loan Mortgage Corporation, or Freddie Mac; an uninsured loss, including those resulting from a catastrophic storm, earthquake, or act of terrorism; changes in interest rate levels and the availability of financing, borrower credit standards, and down-payment requirements which could lead renters to purchase homes (if interest rates decrease and home loans are more readily available) or increase our acquisition and operating costs (if interest rates increase and financing is less readily available); and the relative illiquidity of real estate investments.

At times, we rely on external funding sources to fully fund the payment of distributions to shareholders and our capital investment program (including our existing property expansion developments). While we have sufficient liquidity to permit distributions at current rates through additional borrowings if necessary, any significant and sustained deterioration in operations could result in our financial resources being insufficient to pay distributions to shareholders at the current rate, in which event we would be required to reduce the distribution rate. Any decline in our funds from operations could adversely affect our ability to make distributions to our shareholders or to meet our loan covenants and could have a material adverse effect on our stock price.

We may be adversely affected by new laws and regulations

The current United States administration and Congress have enacted, or called for consideration of, proposals relating to a variety of issues, including with respect to health care, financial regulation reform, climate control, executive compensation and others. We believe that these and other potential proposals could have varying degrees of impact on us ranging from minimal to material. At this time, we are unable to predict with certainty what level of impact specific proposals could have on us.

Certain rulemaking and administrative efforts that may have an impact on us focus principally on the areas perceived as contributing to the global financial crisis and the continuing economic downturn. These initiatives have created a degree of uncertainty regarding the basic rules governing the real estate industry and many other businesses that is unprecedented in the United States at least since the wave of lawmaking and regulatory reform that followed in the wake of the Great Depression. The federal legislative response in this area has culminated most recently in the enactment on July 21, 2010 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, or the Dodd-Frank Act. Many of the provisions of the Dodd-Frank Act have extended implementation periods and delayed effective dates and will require extensive rulemaking by regulatory authorities; thus, the impact on us may not be known for an extended period of time. The Dodd-Frank Act, including future rules implementing its provisions and the interpretation of those rules, along with other legislative and regulatory proposals that are proposed or pending in the United States Congress, may limit our revenues, impose fees or taxes on us, and/or intensify the regulatory framework in which we operate in ways that are not currently identifiable.

Changing laws, regulations and standards relating to corporate governance and public disclosure in particular, including certain provisions of the Dodd-Frank Act and the rules and regulations promulgated thereunder, have created uncertainty for public companies like ours and could significantly increase the costs and risks associated with accessing the United States public markets. Because we are committed to maintaining high standards of internal control over financial reporting, corporate governance and public disclosure, our management team will need to devote significant time and financial resources to comply with these evolving standards for public companies. We intend to continue to invest appropriate resources to comply with both existing and evolving standards, and this investment has resulted and will likely continue to result in increased general and administrative expenses and a diversion of management time and attention from revenue generating activities to compliance activities.

We are dependent on key personnel

Our success depends in part on our ability to attract and retain the services of executive officers and other personnel. There is substantial competition for qualified personnel in the real estate industry, and the loss of several of our key personnel could have an adverse effect on us.

New acquisitions may fail to perform as expected, and failure to integrate acquired communities and new personnel could create inefficiencies

We intend to actively acquire and improve multifamily communities for rental operations. We may underestimate the costs necessary to bring an acquired community up to standards established for our intended market position.

Additionally, to grow successfully, we must be able to apply our experience in managing our existing portfolio of apartment communities to a larger number of properties. We must also be able to integrate new management and operations personnel as our organization grows in size and complexity. Failures in either area will result in inefficiencies that could adversely affect our overall profitability.

We may not be able to sell communities when appropriate

Real estate investments are relatively illiquid and generally cannot be sold quickly. We may not be able to change our portfolio promptly in response to economic or other conditions. Further, we own six communities, which are subject to restrictions on sale and are required to be exchanged through a 1031b tax-free exchange, unless we pay the tax liability of the contributing partners. This inability to respond promptly to changes in the performance of our investments could adversely affect our financial condition and ability to make distributions to our security holders.

Environmental problems are possible and can be costly

Federal, state and local laws and regulations relating to the protection of the environment may require a current or previous owner or operator of real estate to investigate and clean up hazardous or toxic substances or petroleum product releases at such community. The owner or operator may have to pay a governmental entity or third parties for property damage and for investigation and clean-up costs incurred by such parties in connection with the contamination. These laws typically impose clean-up responsibility and liability without regard to whether the owner or operator knew of or caused the presence of the contaminants. Even if more than one person may have been responsible for the contamination, each person covered by the environmental laws may be held responsible for all of the clean-up costs incurred. In addition, third parties may sue the owner or operator of a site for damages and costs resulting from environmental contamination emanating from that site. All of our communities have been the subject of environmental assessments completed by qualified independent environmental consultant companies. These environmental assessments have not revealed, nor are we aware of, any environmental liability that we believe would have a material adverse effect on our business, results of operations, financial condition or liquidity. Over the past several years, there have been an increasing number of lawsuits against owners and managers of multifamily properties alleging personal injury and property damage caused by the presence of mold in residential real estate. Some of these lawsuits have resulted in substantial monetary judgments or settlements. We cannot be assured that existing environmental assessments of our communities reveal all environmental liabilities, that any prior owner of any of our properties did not create a material environmental condition not known to us, or that a material environmental condition does not otherwise exist.

Changes in the system for establishing United States accounting standards may materially and adversely affect our reported results of operations

Accounting for public companies in the United States has historically been conducted in accordance with generally accepted accounting principles as in effect in the United States, or GAAP. GAAP is established by the Financial Accounting Standards Board, or FASB, an independent body whose standards are recognized by the SEC as authoritative for publicly held companies. The International Accounting Standards Board, or IASB, is a London-based independent board established in 2001 and charged with the development of International Financial Reporting Standards, or IFRS. IFRS generally reflects accounting practices that prevail in Europe and in developed nations around the world.

IFRS differs in material respects from GAAP. Among other things, IFRS has historically relied more on “fair value” models of accounting for assets and liabilities than GAAP. “Fair value” models are based on periodic revaluation of assets and liabilities, often resulting in fluctuations in such values as compared to GAAP, which relies more frequently on historical cost as the basis for asset and liability valuation.

The SEC has proposed the mandatory adoption of IFRS by United States public companies possibly starting in 2015. It is unclear at this time how the SEC will propose that GAAP and IFRS be harmonized if the proposed change is adopted. In addition, switching to a new method of accounting and adopting IFRS will be a complex undertaking. We may need to develop new systems and controls based on the principles of IFRS. Since these are new endeavors, and the precise requirements of the pronouncements ultimately adopted are not now known, the magnitude of costs associated with this conversion are uncertain.

We are currently evaluating the impact of the adoption of IFRS on our financial position and results of operations. Such evaluation cannot be completed, however, without more clarity regarding the specific IFRS standards that will be adopted. Until there is more certainty with respect to the IFRS standards to be adopted, prospective investors should consider that our conversion to IFRS could have a material adverse impact on our reported results of operations.

Losses from catastrophes may exceed our insurance coverage

We carry comprehensive liability and property insurance on our communities and intend to obtain similar coverage for communities we acquire in the future. Some losses, generally of a catastrophic nature, such as losses from floods, hurricanes or earthquakes, are subject to limitations, and thus may be uninsured. We exercise our discretion in determining amounts,

coverage limits and deductibility provisions of insurance, with a view to maintaining appropriate insurance on our investments at a reasonable cost and on suitable terms. If we suffer a substantial loss, our insurance coverage may not be sufficient to pay the full current market value or current replacement value of our lost investment. Inflation, changes in building codes and ordinances, environmental considerations and other factors also might make it infeasible to use insurance proceeds to replace a property after it has been damaged or destroyed.

Increasing real estate taxes and insurance costs may negatively impact financial condition

As a result of our substantial real estate holdings, the cost of real estate taxes and insuring our apartment communities is a significant component of expense. Real estate taxes and insurance premiums are subject to significant increases and fluctuations, which can be widely outside of our control. If the costs associated with real estate taxes and insurance should rise, our financial condition could be negatively impacted, and our ability to pay our dividend could be affected.

We may experience increased costs arising from health care reform

In March 2010, the United States government enacted comprehensive health care reform legislation which, among other things, includes guaranteed coverage requirements, eliminates pre-existing condition exclusions and annual and lifetime maximum limits, restricts the extent to which policies can be rescinded and imposes new and significant taxes on health insurers and health care benefits. The legislation imposes implementation effective dates beginning in 2010 and extending through 2020, and many of the changes require additional guidance from government agencies or federal regulations. On June 28, 2012, the United States Supreme Court upheld the constitutionality of the health care reform legislations mandate to purchase health insurance but struck down a provision allowing the federal government to withhold Medicaid funds unless a state agrees to the expansion of Medicaid eligibility. Therefore, due to the phased-in nature of the implementation and the lack of interpretive guidance it is difficult to determine at this time what impact the health care reform legislation will have on our financial results. Possible adverse effects of the health reform legislation include increased costs, exposure to expanded liability and requirements for us to revise ways in which we provide healthcare and other benefits to our employees. In addition, our results of operations, financial position and cash flows could be materially adversely affected.

Property insurance limits may be inadequate and deductibles may be excessive in the event of a catastrophic loss or a series of major losses, and may cause a breach of loan covenants

We have a significant proportion of our assets in areas exposed to windstorms and to the New Madrid seismic zone. A major wind or earthquake loss, or series of losses, could require that we pay significant deductibles as well as additional amounts above the per occurrence limit of our insurance for these risks. We may then be judged to have breached one or more of our loan covenants, and any of the foregoing events could have a material adverse effect on our assets, financial condition, and results of operation.

Compliance or failure to comply with laws requiring access to our properties by disabled persons could result in substantial cost

The Americans with Disabilities Act, the Fair Housing Act of 1988 and other federal, state and local laws generally require that public accommodations be made accessible to disabled persons. Noncompliance could result in the imposition of fines by the government or the award of damages to private litigants. These laws may require us to modify our existing communities. These laws may also restrict renovations by requiring improved access to such buildings by disabled persons or may require us to add other structural features that increase our construction costs. Legislation or regulations adopted in the future may impose further burdens or restrictions on us with respect to improved access by disabled persons. We cannot ascertain the costs of compliance with these laws, which may be substantial.

Development and construction risks could impact our profitability

Currently, we have three development communities and a second phase to an existing community under construction totaling 1,220 units as of June 30, 2012. 405 units for the development projects were completed as of June 30, 2012. Our development and construction activities are subject to the following risks:

we may be unable to obtain, or face delays in obtaining, necessary zoning, land-use, building, occupancy and other required governmental permits and authorizations, which could result in increased development costs, could delay initial occupancy dates for all or a portion of a development community, and could require us to abandon our activities entirely with respect to a project for which we are unable to obtain permits or authorizations; yields may be less than anticipated as a result of delays in completing projects, costs that exceed budget and/or higher than expected concessions for lease up and lower rents than pro forma;

• bankruptcy of developers in our development projects could impose delays and costs on us with respect to the development of our communities and may adversely affect our financial condition and results of operations;
• we may abandon development opportunities that we have already begun to explore, and we may fail to recover expenses already incurred in connection with exploring such opportunities;
• we may be unable to complete construction and lease-up of a community on schedule, or incur development or construction costs that exceed our original estimates, and we may be unable to charge rents that would compensate for any increase in such costs;
• occupancy rates and rents at a newly developed community may fluctuate depending on a number of factors, including market and economic conditions, preventing us from meeting our profitability goals for that community;
• and
• when we sell to third parties communities or properties that we developed or renovated, we may be subject to warranty or construction defect that are uninsured or exceed the limit of our insurance.

Risks Related to Our Indebtedness and Financing Activities

A change in United States government policy with regard to FNMA and Freddie Mac could seriously impact our financial condition

On February 11, 2011, the Obama Administration released a report to Congress which included options, among others, to gradually shrink and eventually shut down FNMA and Freddie Mac. In August 2011, Standard & Poor's Rating Services downgraded the credit ratings of FNMA and Freddie Mac from AAA to AA+. We do not know when or if FNMA or Freddie Mac will restrict their support of lending to the multifamily industry or to us in particular. As of June 30, 2012, 53% of our outstanding debt was borrowed through credit facilities provided by or credit-enhanced by FNMA or Freddie Mac with agency rate-based maturities ranging from 2012 through 2018. While the report to Congress recognized the critically important role that FNMA and Freddie Mac play in the housing finance market and committed to ensuring they have sufficient capital to perform under any guarantees issued now or in the future and the ability to meet any of their debt obligations, should they be unable to meet their obligations it would have a material adverse effect on both us and the multifamily industry, and we would seek alternative sources of funding. This could jeopardize the effectiveness of our interest rate swaps, require us to post collateral up to the market value of the interest rate swaps, and either of these occurrences could potentially cause a breach in one or more of our loan covenants, and through reduced loan availability, impact the value of multifamily assets, which could impair the value of our properties.

Our financing could be impacted by negative capital market conditions

Over the past four years, domestic financial markets have experienced unusual volatility and uncertainty. Liquidity tightened in financial markets, including the investment grade debt, the CMBS, commercial paper, and equity capital markets. A large portion of apartment financing, and as of June 30, 2012, 53% of our outstanding debt, was borrowed through credit facilities provided by or credit-enhanced by FNMA and Freddie Mac, which are now under the conservatorship of the United States government, but for which, on February 11, 2011, the Obama Administration released a report to Congress which included options to gradually shrink and eventually shut down FNMA and Freddie Mac. We have seen an increase in the volatility of short term interest rates and changes in historic relationships between LIBOR (which is the basis for the majority of the payments to us by our swap counterparties) and the actual interest rate we pay through the FNMA Discount Mortgage Backed Security, or DMBS, and the Freddie Mac Reference Bill programs. This creates a risk that our interest expense will fluctuate to a greater extent than it has in the past, and it makes forecasting more difficult. Were our credit arrangements with Prudential Mortgage Capital, credit-enhanced by FNMA, or with Financial Federal, credit-enhanced by Freddie Mac, to fail, or their ability to lend money to finance apartment communities to become impaired or cease, we would have to seek alternative sources of capital, which might not be available on terms acceptable to us, if at all. In addition, any such event would most likely cause our interest costs to rise. This could also cause our interest rate swaps and caps to become ineffective, triggering a default in one or more of our credit agreements. If any of the foregoing events were to occur, it could have a material adverse effect on our business, financial condition and prospects.

Various agency rate-based tranches of our credit facilities with FNMA and Freddie Mac mature from 2012 through 2018, and we anticipate that replacement financing, whether with FNMA, Freddie Mac, or other options in the financial markets, will be at a higher cost.

A change in the value of our assets could cause us to experience a cash shortfall, to be in default of our loan covenants, or to incur a charge for the impairment of assets

We borrow on a secured basis from FNMA, Freddie Mac, and on an unsecured basis from a syndicate of banks led by Key Bank. A significant reduction in the value of our assets could require us to post additional collateral. While we believe that we have significant excess collateral and capacity, future asset values are uncertain. If we were unable to meet a request to add

collateral to a credit facility, this would have a material adverse affect on our liquidity and our ability to meet our loan covenants. We may determine that the value of an individual asset, or group of assets, was irrevocably impaired, and that we may need to record a charge to write-down the value of the asset to reflect its current value.

Debt level, refinancing and loan covenant risk may adversely affect our financial condition and operating results and our ability to maintain our status as a REIT

At June 30, 2012, we had total debt outstanding of \$1.6 billion. Payments of principal and interest on borrowings may leave us with insufficient cash resources to operate the apartment communities or to pay distributions that are required to be paid in order for us to maintain our qualification as a REIT. We currently intend to limit our total debt to a range of approximately 40% to 55% of the undepreciated book value of our assets, although our charter and bylaws do not limit our debt levels. Circumstances may cause us to exceed that target from time-to-time. As of June 30, 2012, our ratio of net-debt to undepreciated book value was approximately 44%. Our Board of Directors can modify this policy at any time, which could allow us to become more highly leveraged and decrease our ability to make distributions to our shareholders. In addition, we must repay our debt upon maturity, and the inability to access debt or equity capital at attractive rates could adversely affect our financial condition and/or our funds from operations. We rely on FNMA and Freddie Mac, which we refer to as the Agencies, for the majority of our debt financing and have agreements with the Agencies and with other lenders that require us to comply with certain covenants, including maintaining adequate collateral that is subject to revaluation quarterly. The breach of any one of these covenants would place us in default with our lenders and may have serious consequences on our operations.

Interest rate hedging may not be effective

We rely on the financial markets to refinance debt maturities, and also are heavily reliant on the Agencies, which provided credit or credit enhancement for the majority of our outstanding debt as of June 30, 2012. The debt is provided under the terms of credit facilities with Prudential Mortgage Capital (credit-enhanced by FNMA) and Financial Federal (credit-enhanced by Freddie Mac). We pay fees to the credit facility providers and the Agencies plus interest, which is based on the FNMA DMBS rate and the Freddie Mac Reference Bill Rate.

The interest rate market for the FNMA DMBS rate and the Freddie Mac Reference Bill Rate, both of which have been highly correlated with LIBOR interest rates, are also an important component of our liquidity and interest rate swap and cap effectiveness. In our experience, the FNMA DMBS rate has historically averaged 17 basis points below three-month LIBOR, and the Freddie Mac Reference Bill rate has averaged 32 basis points below the associated LIBOR rate, but in the past four years the spreads increased significantly and have been more volatile than we have historically seen. We cannot forecast when or if the uncertainty and volatility in the market may change. Continued unusual volatility over a period of time could cause us to lose hedge accounting treatment for our interest rate swaps and caps, resulting in material changes to our consolidated statements of operations and balance sheet, and potentially cause a breach with one of our debt covenants.

Fluctuations in interest rate spreads between the DMBS and Reference Bill rates and three-month LIBOR causes ineffectiveness to flow through interest expense in the current period if we are in an overhedged position, and together with the unrecognized ineffectiveness, reduces the effectiveness of the swaps and caps.

We also rely on the credit of the counterparties that provide swaps and caps to hedge the interest rate risk on our credit facilities. We use four major banks to provide approximately 97% of our derivative fair value, all of which have investment grade ratings from Moody's and S&P. In the event that one of our derivative providers should suffer a significant downgrade of its credit rating or fail, our swaps or caps may become not effective, in which case all or a portion of the fair value of the swap or cap would be recorded to earnings, possibly causing a substantial loss sufficient to cause a breach of one of our debt covenants.

One or more interest rate swap or cap counterparties could default, causing us significant financial exposure. We enter into interest rate swap and interest rate cap agreements only with counterparties that are highly rated (A or above by Standard & Poor's, or Aa3 or above by Moody's). We also try to diversify our risk amongst several counterparties. In the event one or more of these counterparties were to go into liquidation or to experience a significant rating downgrade, this could cause us to liquidate the interest rate swap or to lose the interest rate protection of an interest rate cap. Liquidation of an interest rate swap could cause us to be required to pay the swap counter party the net present value of the swap, which may represent a significant current period cash charge, possibly

sufficient to cause us to breach one or more loan covenants.

Variable interest rates may adversely affect funds from operations

At June 30, 2012, effectively \$142.0 million of our debt bore interest at a variable rate and was not hedged by interest rate swaps or caps. We may incur additional debt in the future that also bears interest at variable rates. Variable rate debt creates

higher debt service requirements if market interest rates increase, which would adversely affect our funds from operations and the amount of cash available to pay distributions to shareholders. Our \$964.4 million in secured credit facilities with Prudential Mortgage Capital, credit enhanced by FNMA, are predominately floating rate facilities. We also have a credit facility with Freddie Mac totaling \$200.0 million that is a variable rate facility. At June 30, 2012, a total of \$836.5 million was outstanding under these facilities. These facilities represent the majority of the variable interest rates we were exposed to at June 30, 2012. Large portions of the interest rates on these facilities have been hedged by means of a number of interest rate swaps and caps. Upon the termination of these swaps and caps, we will be exposed to the risks of varying interest rates unless acceptable replacement swaps or caps are obtainable.

Issuances of additional debt or equity may adversely impact our financial condition

Our capital requirements depend on numerous factors, including the occupancy and turnover rates of our apartment communities, development and capital expenditures, costs of operations and potential acquisitions. We cannot accurately predict the timing and amount of our capital requirements. If our capital requirements vary materially from our plans, we may require additional financing sooner than anticipated. Accordingly, we could become more leveraged, resulting in increased risk of default on our obligations and in an increase in our debt service requirements, both of which could adversely affect our financial condition and ability to access debt and equity capital markets in the future. If we issue additional equity securities to obtain additional financing, the interest of our existing shareholders could be diluted.

Risks Related to Our Organization and Ownership of Our Stock

Our ownership limit restricts the transferability of our capital stock

Our charter limits ownership of our capital stock by any single shareholder to 9.9% of the value of all outstanding shares of our capital stock, both common and preferred. The charter also prohibits anyone from buying shares if the purchase would result in our losing REIT status. This could happen if a share transaction results in fewer than 100 persons owning all of our shares or in five or fewer persons, applying certain broad attribution rules of the Code, owning 50% or more of our shares. If you acquire shares in excess of the ownership limit or in violation of the ownership requirements of the Code for REITs, we:

- will consider the transfer to be null and void;
- will not reflect the transaction on our books;
- may institute legal action to enjoin the transaction;
- will not pay dividends or other distributions with respect to those shares;
- will not recognize any voting rights for those shares;
- will consider the shares held in trust for our benefit; and

will either direct you to sell the shares and turn over any profit to us, or we will redeem the shares. If we redeem the shares, you will be paid a price equal to the lesser of the price you paid for the shares; or the average of the last reported sales prices on the New York Stock Exchange on the ten trading days immediately preceding the date fixed for redemption by our Board of Directors.

If you acquire shares in violation of the limits on ownership described above:

- you may lose your power to dispose of the shares;
- you may not recognize profit from the sale of such shares if the market price of the shares increases; and
- you may be required to recognize a loss from the sale of such shares if the market price decreases.

Provisions of our charter and Tennessee law may limit the ability of a third party to acquire control of us

Ownership Limit

The 9.9% ownership limit discussed above may have the effect of precluding acquisition of control of us by a third party without the consent of our Board of Directors.

Preferred Stock

Our charter authorizes our Board of Directors to issue up to 20,000,000 shares of preferred stock. The Board of Directors may establish the preferences and rights of any preferred shares issued. The issuance of preferred stock could have the effect of delaying or preventing someone from taking control of us, even if a change in control were in our shareholders' best interests. As of June 30, 2012, no shares of preferred stock were issued and outstanding.

Tennessee Anti-Takeover Statutes

As a Tennessee corporation, we are subject to various legislative acts, which impose restrictions on and require compliance with procedures designed to protect shareholders against unfair or coercive mergers and acquisitions. These statutes may delay or prevent offers to acquire us and increase the difficulty of consummating any such offers, even if our acquisition would be in our shareholders' best interests.

Our investments in joint ventures may involve risks

Investments in joint ventures may involve risks that may not otherwise be present in our direct investments such as:

- the potential inability of our joint venture partner to perform;
- the joint venture partner may have economic or business interests or goals which are inconsistent with or adverse to ours;
- the joint venture partner may take actions contrary to our requests or instructions or contrary to our objectives or policies; and
- the joint venturers may not be able to agree on matters relating to the property they jointly own.

Although each joint owner will have a right of first refusal to purchase the other owner's interest, in the event a sale is desired, the joint owner may not have sufficient resources to exercise such right of first refusal.

Market interest rates and low trading volume may have an adverse effect on the market value of our common shares

The market price of shares of a REIT may be affected by the distribution rate on those shares, as a percentage of the price of the shares, relative to market interest rates. If market interest rates increase, prospective purchasers of our shares may expect a higher annual distribution rate. Higher interest rates would not, however, result in more funds for us to distribute and, in fact, would likely increase our borrowing costs and potentially decrease funds available for distribution. This could cause the market price of our common shares to go down. In addition, although our common shares are listed on The New York Stock Exchange, or NYSE, the daily trading volume of our shares may be lower than the trading volume for other industries. As a result, our investors who desire to liquidate substantial holdings may find that they are unable to dispose of their shares in the market without causing a substantial decline in the market value of the shares.

Changes in market conditions or a failure to meet the market's expectations with regard to our earnings and cash distributions could adversely affect the market price of our common shares

We believe that the market value of a REIT's equity securities is based primarily upon the market's perception of the REIT's growth potential and its current and potential future cash distributions, and is secondarily based upon the real estate market value of the underlying assets. For that reason, our shares may trade at prices that are higher or lower than the net asset value per share. To the extent we retain operating cash flow for investment purposes, working capital reserves or other purposes, these retained funds, while increasing the value of our underlying assets, may not correspondingly increase the market price of our common shares. In addition, we are subject to the risk that our cash flow will be insufficient to pay distributions to our shareholders. Our failure to meet the market's expectations with regard to future earnings and cash distributions would likely adversely affect the market price of our shares.

The stock markets, including NYSE, on which we list our common shares, have experienced significant price and volume fluctuations. As a result, the market price of our common shares could be similarly volatile, and investors in our common shares may experience a decrease in the value of their shares, including decreases unrelated to our operating performance or prospects. Among the market conditions that may affect the market price of our publicly traded securities are the following:

- our financial condition and operating performance and the performance of other similar companies;
- actual or anticipated differences in our quarterly and annual operating results;
- changes in our revenues or earnings estimates or recommendations by securities analysts;
- publication of research reports about us or our industry by securities analysts;
- additions and departures of key personnel;
- inability to access the capital markets;
- strategic decisions by us or our competitors, such as acquisitions, dispositions, spin-offs, joint ventures, strategic investments or changes in business strategy;

the issuance of additional shares of our common stock, or the perception that such sales may occur, including under our at-the-market controlled equity offering programs;

the reputation of REITs generally and the reputation of REITs with portfolios similar to ours;

the attractiveness of the securities of REITs in comparison to securities issued by other entities (including securities

issued by other real estate companies);

an increase in market interest rates, which may lead prospective investors to demand a higher distribution rate in relation to the price paid for our shares;

the passage of legislation or other regulatory developments that adversely affect us or our industry;

speculation in the press or investment community;

actions by institutional shareholders or hedge funds;

changes in accounting principles;

terrorist acts; and

general market conditions, including factors unrelated to our performance.

In the past, securities class action litigation has often been instituted against companies following periods of volatility in their stock price. This type of litigation could result in substantial costs and divert our management's attention and resources.

Risks Related to Tax Laws

Failure to qualify as a REIT would cause us to be taxed as a corporation

If we failed to qualify as a REIT for federal income tax purposes, we would be taxed as a corporation. The Internal Revenue Service may challenge our qualification as a REIT for prior years, and new legislation, regulations, administrative interpretations or court decisions may change the tax laws with respect to qualification as a REIT or the federal tax consequences of such qualification. For any taxable year that we fail to qualify as a REIT, we would be subject to federal income tax on our taxable income at corporate rates, plus any applicable alternative minimum tax. In addition, unless entitled to relief under applicable statutory provisions, we would be disqualified from treatment as a REIT for the four taxable years following the year during which qualification is lost. This treatment would reduce our net earnings available for investment or distribution to shareholders because of the additional tax liability for the year or years involved. In addition, distributions would no longer qualify for the dividends paid deduction nor be required to be made in order to preserve REIT status. We might be required to borrow funds or to liquidate some of our investments to pay any applicable tax resulting from our failure to qualify as a REIT.

Failure to make required distributions would subject us to income taxation

In order to qualify as a REIT, each year we must distribute to shareholders at least 90% of our taxable income (determined without regard to the dividend paid deduction and by excluding net capital gains). To the extent that we satisfy the distribution requirement, but distribute less than 100% of taxable income, we will be subject to federal corporate income tax on the undistributed income. In addition, we would incur a 4% nondeductible excise tax on the amount, if any, by which our distributions in any year are less than the sum of:

85% of ordinary income for that year;

95% of capital gain net income for that year; and

100% of undistributed taxable income from prior years.

Differences in timing between the recognition of income and the related cash receipts or the effect of required debt amortization payments could require us to borrow money or sell assets to pay out enough of the taxable income to satisfy the distribution requirement and to avoid corporate income tax and the 4% nondeductible excise tax in a particular year.

Complying with REIT requirements may cause us to forgo otherwise attractive opportunities or engage in marginal investment opportunities

To qualify as a REIT for federal income tax purposes, we must continually satisfy tests concerning, among other things, the sources of income, the nature and diversification of assets, the amounts distributed to shareholders and the ownership of our stock. In order to meet these tests, we may be required to forgo attractive business or investment opportunities or engage in marginal investment opportunities. Thus, compliance with the REIT requirements may hinder our ability to operate solely on the basis of maximizing profits.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

MAA Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid per Share ⁽¹⁾	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet be Purchased Under the Plans or Programs ⁽²⁾
April 1, 2012 - April 30, 2012	2,486	66.85	—	2,138,000
May 1, 2012 - May 31, 2012	168	69.67	—	2,138,000
June 1, 2012 - June 30, 2012	696	66.92	—	2,138,000
Total	3,350	67.01	—	2,138,000

⁽¹⁾ Represents shares repurchased under ESOP plan

⁽²⁾ This number reflects the amount of shares that were available for purchase under our 4,000,000 share repurchase program authorized by our Board in 1999.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

(a) The following exhibits are filed as part of this report.

Exhibit Number	Exhibit Description
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	The following financial information from Mid-America Apartment Communities, Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2012, filed with the SEC on August 3, 2012, formatted in Extensible Business Reporting Language (XBRL): (i) the Condensed Consolidated Balance Sheet as of June 30, 2012 (Unaudited) and December 31, 2011 (unaudited); (ii) the Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2012 (Unaudited) and 2011 (Unaudited); (iii) the Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2012 (Unaudited) and 2011 (Unaudited); and (iv) Notes to Condensed Consolidated Financial Statements, tagged as blocks of text (Unaudited).*

* Pursuant to Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to this Quarterly Report on Form 10-Q shall not be deemed to be "filed" for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and shall not be deemed part of a registration statement, prospectus or other document filed under the Securities Act or the Exchange Act, except as shall be expressly set forth by specific reference in such filings.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MID-AMERICA APARTMENT COMMUNITIES, INC.

Date: August 3, 2012 /s/Albert M. Campbell, III
Albert M. Campbell, III
On behalf of the registrant and as
Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)