

MID AMERICA APARTMENT COMMUNITIES INC  
Form 10-Q  
July 27, 2017

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, 2017  
or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 001-12762 (Mid-America Apartment Communities, Inc.)

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

MID-AMERICA APARTMENT COMMUNITIES, INC.

MID-AMERICA APARTMENTS, L.P.

(Exact name of registrant as specified in its charter)

Tennessee (Mid-America Apartment Communities, Inc.) 62-1543819

Tennessee (Mid-America Apartments, L.P.) 62-1543816

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

6584 Poplar Avenue, Memphis, Tennessee, 38138

(Address of principal executive offices) (Zip Code)

(901) 682-6600

(Registrant's telephone number, including area code)

N/A

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

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

Mid-America Apartment Communities, Inc. YES  NO

Mid-America Apartments, L.P. 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

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required to submit and post such files).

Mid-America Apartment Communities, Inc. YES  NO

Mid-America Apartments, L.P. YES  NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Mid-America Apartment Communities, Inc.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>	Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>	Emerging growth company	<input type="checkbox"/>
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(Do not check if a smaller reporting

company)

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

Mid-America Apartments, L.P.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>	Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>	Emerging growth company	<input type="checkbox"/>
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(Do not check if a smaller reporting company)

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

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

Mid-America Apartment Communities, Inc. YES  NO

Mid-America Apartments, L.P. YES  NO

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

Class	Number of Shares Outstanding at July 24, 2017
Common Stock, \$0.01 par value	113,607,733

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

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## Explanatory Note

This periodic report on Form 10-Q, or this Report, combines the quarterly reports for the quarter ended June 30, 2017 of Mid-America Apartment Communities, Inc., a Tennessee corporation, and Mid-America Apartments, L.P., a Tennessee limited partnership, of which Mid-America Apartment Communities, Inc. is its sole general partner. Mid-America Apartment Communities, Inc. and its 96.4% owned subsidiary, Mid-America Apartments, L.P., are both required to file periodic reports under the Securities Exchange Act of 1934, as amended.

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

As of June 30, 2017, MAA owned 113,607,734 OP Units (or 96.4% of the total number of OP Units). MAA conducts substantially all of its business and holds substantially all of its assets through the Operating Partnership, and by virtue of its ownership of the OP Units and being the Operating Partnership's sole general partner, MAA has the ability to control all of the day-to-day operations of the Operating Partnership.

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

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

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

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

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

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

the Condensed Consolidated Financial Statements in Item 1 of this Report; certain accompanying notes to the Condensed Consolidated Financial Statements, including Note 3 - Earnings per Common Share of MAA and Note 4 - Earnings per OP Unit of MAALP; Note 5 - MAA Equity and Note 6 - MAALP Capital; and Note 10 - Shareholders' Equity of MAA and Note 11 - Partners' Capital of MAALP; and the certifications of the Chief Executive Officer and Chief Financial Officer of MAA included as Exhibits 31 and 32 to this Report.

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

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

	June 30, 2017	December 31, 2016
Assets:		
Real estate assets:		
Land	\$ 1,821,016	\$ 1,816,008
Buildings and improvements	10,641,003	10,523,762
Furniture, fixtures and equipment	323,155	298,204
Development and capital improvements in progress	258,047	231,224
	13,043,221	12,869,198
Less accumulated depreciation	(1,851,913 )	(1,656,071 )
	11,191,308	11,213,127
Undeveloped land	64,790	71,464
Corporate properties, net	12,072	12,778
Investments in real estate joint ventures	44,839	44,493
Assets held for sale	31,366	—
Real estate assets, net	11,344,375	11,341,862
Cash and cash equivalents	39,659	33,536
Restricted cash	27,859	88,264
Deferred financing costs, net	4,292	5,065
Other assets	116,705	134,525
Goodwill	1,239	1,239
Total assets	\$ 11,534,129	\$ 11,604,491
Liabilities and equity:		
Liabilities:		
Unsecured notes payable	\$ 3,443,056	\$ 3,180,624
Secured notes payable	1,129,996	1,319,088
Accounts payable	13,932	11,970
Fair market value of interest rate swaps	3,626	7,562
Accrued expenses and other liabilities	381,232	414,244
Security deposits	19,637	18,829
Total liabilities	4,991,479	4,952,317
Redeemable common stock	10,408	10,073
Shareholders' equity:		
Preferred stock, \$0.01 par value per share, 20,000,000 shares authorized; 8.50% Series I Cumulative Redeemable Shares, liquidation preference \$50 per share, 867,846 shares issued and outstanding at June 30, 2017 and December 31, 2016, respectively	9	9
Common stock, \$0.01 par value per share, 145,000,000 shares authorized; 113,607,734 and 113,518,212 shares issued and outstanding at June 30, 2017 and December 31, 2016, respectively <sup>(1)</sup>	1,134	1,133

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Additional paid-in capital	7,114,079	7,109,012
Accumulated distributions in excess of net income	(817,616 )	(707,479 )
Accumulated other comprehensive income	735	1,144
Total MAA shareholders' equity	6,298,341	6,403,819
Noncontrolling interests - operating partnership units	231,595	235,976
Total Company's shareholders' equity	6,529,936	6,639,795
Noncontrolling interests - consolidated real estate entity	2,306	2,306
Total equity	6,532,242	6,642,101
Total liabilities and equity	\$ 11,534,129	\$ 11,604,491

(1) Number of shares issued and outstanding represents total shares of common stock regardless of classification on the condensed consolidated balance sheets. The number of shares classified as redeemable stock on the condensed consolidated balance sheets at June 30, 2017 and December 31, 2016 are 98,771 and 103,578, respectively.

See accompanying notes to condensed consolidated financial statements.



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

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Operating revenues:				
Rental revenues	\$355,832	\$249,326	\$707,009	\$494,991
Other property revenues	26,959	22,910	54,690	46,261
Total operating revenues	382,791	272,236	761,699	541,252
Property operating expenses:				
Personnel	34,642	25,858	68,015	51,055
Building repairs and maintenance	11,811	7,680	21,624	13,779
Real estate taxes and insurance	54,163	34,729	108,136	69,900
Utilities	27,527	22,244	54,424	44,380
Landscaping	7,045	5,673	13,567	10,994
Other operating	10,781	6,771	21,476	13,728
Depreciation and amortization	126,360	75,742	256,357	150,870
Total property operating expenses	272,329	178,697	543,599	354,706
Acquisition expenses	—	421	—	1,134
Property management expenses	10,745	8,310	21,726	17,313
General and administrative expenses	9,534	7,014	22,374	13,596
Merger related expenses	978	—	3,849	—
Integration related expenses	3,229	—	6,519	—
Income from continuing operations before non-operating items	85,976	77,794	163,632	154,503
Interest and other non-property income	650	62	3,329	94
Interest expense	(38,481 )	(32,039 )	(75,065 )	(64,250 )
Gain on debt extinguishment	2,217	—	2,340	3
Net casualty (loss) gain after insurance and other settlement proceeds	(240 )	1,760	(331 )	813
Gain on sale of depreciable real estate assets	274	68	201	823
Gain on sale of non-depreciable real estate assets	48	543	48	2,170
Income before income tax expense	50,444	48,188	94,154	94,156
Income tax expense	(618 )	(457 )	(1,269 )	(745 )
Income from continuing operations before joint venture activity	49,826	47,731	92,885	93,411
Gain (loss) from real estate joint ventures	329	(101 )	686	27
Net income	50,155	47,630	93,571	93,438
Net income attributable to noncontrolling interests	1,840	2,486	3,351	4,881
Net income available for shareholders	48,315	45,144	90,220	88,557
Dividends to MAA Series I preferred shareholders	922	—	1,844	—
Net income available for MAA common shareholders	\$47,393	\$45,144	\$88,376	\$88,557
Earnings per common share - basic:				
Net income available for common shareholders	\$0.42	\$0.60	\$0.78	\$1.17
Earnings per common share - diluted:				
Net income available for common shareholders	\$0.42	\$0.60	\$0.78	\$1.17
Dividends declared per common share	\$0.87	\$0.82	\$1.74	\$1.64

See accompanying notes to condensed consolidated financial statements.

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

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Net income	\$50,155	\$47,630	\$93,571	\$93,438
Other comprehensive income:				
Unrealized loss from the effective portion of derivative instruments	(3,863 )	(1,314 )	(1,343 )	(5,019 )
Reclassification adjustment for net losses included in net income for the effective portion of derivative instruments	246	1,131	918	2,317
Total comprehensive income	46,538	47,447	93,146	90,736
Less: comprehensive income attributable to noncontrolling interests	(1,711 )	(2,477 )	(3,335 )	(4,740 )
Comprehensive income attributable to MAA	\$44,827	\$44,970	\$89,811	\$85,996

See accompanying notes to condensed consolidated financial statements.

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

	Six months ended	
	June 30,	
	2017	2016
Cash flows from operating activities:		
Net income	\$93,571	\$93,438
Adjustments to reconcile net income to net cash provided by operating activities:		
Retail revenue accretion	(196 )	(110 )
Depreciation and amortization	256,872	151,114
Stock compensation expense	5,618	3,958
Redeemable stock expense	330	282
Amortization of debt premium and debt issuance costs	(6,023 )	(5,096 )
Gain from investments in real estate joint ventures	(686 )	(27 )
Gain on debt extinguishment	(3,921 )	—
Derivative interest credit	(4,064 )	(1,295 )
Settlement of forward swaps	(1,547 )	—
Gain on sale of non-depreciable real estate assets	(48 )	(2,170 )
Gain on sale of depreciable real estate assets	(201 )	(823 )
Net casualty loss (gain) and other settlement proceeds	331	(813 )
Changes in assets and liabilities:		
Restricted cash	2,146	951
Other assets	(6,077 )	4,130
Accounts payable	2,008	1,542
Accrued expenses and other	(17,131 )	(7,567 )
Security deposits	806	702
Net cash provided by operating activities	321,788	238,216
Cash flows from investing activities:		
Purchases of real estate and other assets	(62,817 )	(130,597)
Normal capital improvements	(50,890 )	(44,417 )
Construction capital and other improvements	(5,453 )	(3,288 )
Renovations to existing real estate assets	(20,309 )	(17,719 )
Development	(109,720)	(29,156 )
Distributions from real estate joint ventures	—	1,793
Proceeds from disposition of real estate assets	1,551	38,001
Return of escrow for future acquisitions	58,259	—
Net cash used in investing activities	(189,379)	(185,383)
Cash flows from financing activities:		
Net change in credit lines	(330,000)	105,000
Proceeds from notes payable	597,480	—
Principal payments on notes payable	(178,164)	(37,261 )
Payment of deferred financing costs	(5,257 )	(141 )
Repurchase of common stock	(4,782 )	(1,742 )
Proceeds from issuances of common shares	783	628
Exercise of stock options	432	—
Distributions to noncontrolling interests	(7,332 )	(6,823 )

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Dividends paid on common shares	(197,602)	(123,774)
Dividends paid on preferred shares	(1,844 )	—
Net cash used in financing activities	(126,286)	(64,113 )
Net increase (decrease) in cash and cash equivalents	6,123	(11,280 )
Cash and cash equivalents, beginning of period	33,536	37,559
Cash and cash equivalents, end of period	\$39,659	\$26,279

Supplemental disclosure of cash flow information:

Interest paid	\$79,981	\$71,092
Income taxes paid	\$2,226	\$1,544

Supplemental disclosure of noncash investing and financing activities:

Conversion of OP Units to shares of common stock	\$265	\$158
Accrued construction in progress	\$19,360	\$10,781
Interest capitalized	\$4,227	\$708
Mark-to-market adjustment on derivative instruments	\$6,757	\$(1,407 )

See accompanying notes to condensed consolidated financial statements.

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

	June 30, 2017	December 31, 2016
Assets:		
Real estate assets:		
Land	\$ 1,821,016	\$ 1,816,008
Buildings and improvements	10,641,003	10,523,762
Furniture, fixtures and equipment	323,155	298,204
Development and capital improvements in progress	258,047	231,224
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Less accumulated depreciation	(1,851,913 )	(1,656,071 )
	11,191,308	11,213,127
Undeveloped land	64,790	71,464
Corporate properties, net	12,072	12,778
Investments in real estate joint ventures	44,839	44,493
Assets held for sale	31,366	—
Real estate assets, net	11,344,375	11,341,862
Cash and cash equivalents	39,659	33,536
Restricted cash	27,859	88,264
Deferred financing costs, net	4,292	5,065
Other assets	116,705	134,525
Goodwill	1,239	1,239
Total assets	\$ 11,534,129	\$ 11,604,491
Liabilities and Capital:		
Liabilities:		
Unsecured notes payable	\$ 3,443,056	\$ 3,180,624
Secured notes payable	1,129,996	1,319,088
Accounts payable	13,932	11,970
Fair market value of interest rate swaps	3,626	7,562
Accrued expenses and other liabilities	381,232	414,244
Security deposits	19,637	18,829
Due to general partner	19	19
Total liabilities	4,991,498	4,952,336
Redeemable common units	10,408	10,073
Operating Partnership Capital:		
Preferred Units: 867,846 Preferred Units outstanding at June 30, 2017 and at December 31, 2016	66,840	64,833
Common Units:		
General partner: 113,607,734 OP Units outstanding at June 30, 2017 and 113,518,212 OP Units outstanding at December 31, 2016 <sup>(1)</sup>	6,230,661	6,337,721

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Limited partners: 4,215,678 OP Units outstanding at June 30, 2017 and 4,220,403 OP Units outstanding at December 31, 2016 <sup>(1)</sup>	231,595	235,976
Accumulated other comprehensive income	821	1,246
Total operating partners' capital	6,529,917	6,639,776
Noncontrolling interests - consolidated real estate entity	2,306	2,306
Total capital	6,532,223	6,642,082
Total liabilities and capital	\$ 11,534,129	\$ 11,604,491

Number of units outstanding represents total OP Units regardless of classification on the condensed consolidated <sup>(1)</sup> balance sheets. The number of OP Units classified as redeemable units on the condensed consolidated balance sheets at June 30, 2017 and December 31, 2016 are 98,771 and 103,578, respectively.

See accompanying notes to condensed consolidated financial statements.

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

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Operating revenues:				
Rental revenues	\$355,832	\$249,326	\$707,009	\$494,991
Other property revenues	26,959	22,910	54,690	46,261
Total operating revenues	382,791	272,236	761,699	541,252
Property operating expenses:				
Personnel	34,642	25,858	68,015	51,055
Building repairs and maintenance	11,811	7,680	21,624	13,779
Real estate taxes and insurance	54,163	34,729	108,136	69,900
Utilities	27,527	22,244	54,424	44,380
Landscaping	7,045	5,673	13,567	10,994
Other operating	10,781	6,771	21,476	13,728
Depreciation and amortization	126,360	75,742	256,357	150,870
Total property operating expenses	272,329	178,697	543,599	354,706
Acquisition expenses	—	421	—	1,134
Property management expenses	10,745	8,310	21,726	17,313
General and administrative expenses	9,534	7,014	22,374	13,596
Merger related expenses	978	—	3,849	—
Integration related expenses	3,229	—	6,519	—
Income from continuing operations before non-operating items	85,976	77,794	163,632	154,503
Interest and other non-property income	650	62	3,329	94
Interest expense	(38,481)	(32,039)	(75,065)	(64,250)
Gain on debt extinguishment	2,217	—	2,340	3
Net casualty (loss) gain after insurance and other settlement proceeds	(240)	1,760	(331)	813
Gain on sale of depreciable real estate assets	274	68	201	823
Gain on sale of non-depreciable real estate assets	48	543	48	2,170
Income before income tax expense	50,444	48,188	94,154	94,156
Income tax expense	(618)	(457)	(1,269)	(745)
Income from continuing operations before joint venture activity	49,826	47,731	92,885	93,411
Gain (loss) from real estate joint ventures	329	(101)	686	27
Net income	50,155	47,630	93,571	93,438
Dividends to preferred unitholders	922	—	1,844	—
Net income available for Mid-America Apartments, L.P. common unitholders	\$49,233	\$47,630	\$91,727	