MID AMERICA APARTMENT COMMUNITIES INC
Form 10-K
February 22, 2013

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

FORM 10-K

S ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 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 (Zip Code)
(Address of principal executive offices)	

(901) 682-6600
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value $.01 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ý Yes ¨ No
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. ¨ Yes ý No
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 the filing requirements for the past 90 days. ý Yes ¨ No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the

preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ý Yes ¨ No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ý

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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 “accelerated filer,” “large accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller Reporting Company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ¨ Yes ý No

As of June 30, 2012, the aggregate market value of the registrant’s common stock held by non-affiliates of the registrant was $2,784,477,789, based on the closing sale price as reported on the New York Stock Exchange.

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

Class	Outstanding at February 4, 2013
Common Stock, $.01 par value per share	42,351,885 shares

DOCUMENTS INCORPORATED BY REFERENCE

Document	Parts Into Which Incorporated
Certain portions of the Proxy Statement for the Annual Meeting of Shareholders to be held May 21, 2013 to be filed with the Securities and Exchange Commission pursuant to Regulation 14A, not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.	Part III

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MID-AMERICA APARTMENT COMMUNITIES, INC.

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PART I

RISKS ASSOCIATED WITH FORWARD-LOOKING STATEMENTS

Mid-America Apartment Communities, Inc. considers this and other sections of this Annual Report on Form 10-K 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, joint venture activity, development and renovation activity as well as other capital expenditures, capital raising activities, rent and expense growth, occupancy, financing activities and interest rate and other economic expectations. 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, financial conditions 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;
- 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;
- 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;
- increasing real estate taxes and insurance costs;
- losses from catastrophes in excess of our insurance coverage;
- inability to acquire funding through the capital markets;
- 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 decrease or cease to exist;
- changes in interest rate levels, including that of variable rate debt, which are extensively used by us;
- loss of hedge accounting treatment for interest rate swaps or interest rate caps;
- 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;
- inability to pay required distributions to maintain REIT status due to required debt payments;
-

significant change in the mortgage financing market that would cause single-family housing, either as an owned or rental product, to become a more significant competitive product;

- 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.

ITEM 1. BUSINESS

OVERVIEW

Founded in 1994, Mid-America Apartment Communities, Inc. is a Memphis, Tennessee-based self-administered and self-managed real estate investment trust, or REIT, that focuses on acquiring, owning and operating apartment communities in the Sunbelt region of the United States. As of December 31, 2012, we owned 100% of 160 properties representing 47,809 apartment units. Four properties include retail components with approximately 108,000 square feet of gross leasable area. As of December 31, 2012, we also had 33.33% ownership interests in Mid-America Multifamily Fund I, LLC, or Fund I, and Mid-America Multifamily Fund II, LLC, or Fund II, which owned two properties containing 626 apartment units and four properties containing 1,156 apartment units, respectively. These apartment communities were located across 13 states.

Our business is conducted principally through Mid-America Apartments, L.P., which we refer to as our Operating Partnership. We are the sole general partner of the Operating Partnership, holding 39,721,461 common units of partnership interest, or common units, comprising a 95.8% general partnership interest in the operating partnership as of December 31, 2012. Unless the context otherwise requires, all references in this Annual Report on Form 10-K to “we,” “us,” “our,” “the company,” or “MAA” refer collectively to Mid-America Apartment Communities, Inc. and its subsidiaries.

Our corporate offices are located at 6584 Poplar Avenue, Memphis, Tennessee 38138 and our telephone number is (901) 682-6600. As of December 31, 2012, we had 1,384 full-time employees and 62 part-time employees.

FINANCIAL INFORMATION ABOUT SEGMENTS

As of December 31, 2012, we owned or had an ownership interest in 166 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 1 million and at least 1% of the total public multifamily REIT units that we have owned and that have been stabilized for at least a full 12 months and have not been classified as held for sale. Communities are considered stabilized after achieving and maintaining at least 90% occupancy for 90 days.
- Secondary market same store communities are generally communities in markets with populations of more than 1 million but less than 1% of the total public multifamily REIT units or markets with populations of less than 1 million that we have owned and that have been stabilized for at least a full 12 months and have not been classified as held for sale. Communities are considered stabilized after achieving and maintaining at least 90% occupancy for 90 days.
- 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, which allows us to evaluate full period-over-period operating comparisons. We utilize net operating income, or NOI, in evaluating the performance. 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 because it measures the core operations of property performance by excluding corporate level expenses and other items not related to property operating performance.

A summary of segment operating results for 2012, 2011 and 2010 is included in Item 8. Financial Statements and Supplementary Data – Notes to Consolidated Financial Statements, Note 13. Additionally, segment operating performance for such years is discussed in Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, in this Annual Report on Form 10-K.

BUSINESS OBJECTIVES

Our primary business objectives are to protect and grow existing property values, to maintain a stable and increasing cash flow that will fund our dividend through all parts of the real estate investment cycle, and to create new shareholder value

by growing in a disciplined manner. To achieve these objectives, we intend to continue to pursue the following goals and strategies:

- effectively and efficiently operate our existing properties with an intense property and asset management focus and a decentralized structure;
- when accretive to long-term shareholder value, acquire or develop additional high-quality properties throughout the Sunbelt region of the United States;
- selectively dispose of properties that no longer meet our ownership guidelines;
- develop, renovate and reposition existing properties;
- diversify investment capital across both large and secondary markets to achieve a growing and less volatile operating performance profile to better support dividend funding across the full real estate and economic market cycle;
- enter into joint ventures to acquire and reposition properties; and
- actively manage our capital structure.

OPERATION STRATEGY

Our goal is to generate our return on investment collectively and in each apartment community by increasing revenues, controlling operating expenses, maintaining high occupancy levels and reinvesting as appropriate. The steps taken to meet these objectives include:

- diversifying portfolio investments across both large and secondary markets;
- providing management information and improved customer services through technology innovations;
- utilizing systems to enhance property managers’ ability to optimize revenue by adjusting rents in response to local market conditions and individual unit amenities;
- developing new ancillary income programs aimed at offering new services to residents, including cable, on which we generate revenue;
- implementing programs to control expenses through investment in cost-saving initiatives, including measuring and passing on to residents the cost of various expenses, including water and other utility costs;
- analyzing individual asset productivity performances to identify best practices and improvement areas;
- proactively maintaining the physical condition of each property through ongoing capital investments;
- improving the “curb appeal” of the apartment communities through extensive landscaping and exterior improvements, and repositioning apartment communities from time-to-time to enhance or maintain market positions;
- aggressively managing lease expirations to align with peak leasing traffic patterns and to maximize productivity of property staffing;
- allocating additional capital, including capital for selective interior and exterior improvements;
- compensating employees through performance-based compensation and stock ownership programs;
- maintaining a hands-on management style and “flat” organizational structure that emphasizes senior management's continued close contact with the market and employees;
- selling or exchanging underperforming assets;
- issuing or repurchasing shares of common or preferred stock when cost of capital and asset values permit;
- acquiring and selectively developing properties; and
- maintaining disciplined investment and capital allocation practices.

Decentralized Operational Structure

We operate in a decentralized manner. We believe that our decentralized operating structure capitalizes on specific market knowledge, provides greater personal accountability than a centralized structure and is beneficial in the acquisition and redevelopment processes. To support this decentralized operational structure, senior and executive management, along with various asset management functions, are proactively involved in supporting and reviewing

property management through extensive reporting processes and frequent on-site visitations. To maximize the amount of information shared between senior and executive management and the properties on a real time basis, we utilize a web-based property management system. The system contains property and accounting modules that allow for operating efficiencies, continued expense control, provide for various expanded revenue management practices, and improve the support provided to on-site property operations. We use a "yield management" pricing program that helps our property managers optimize rental revenues, and we also utilize purchase order and accounts payable software to provide improved controls and management information. We have also implemented revised utility billing processes, rolled out new web-sites, including a new resident portal facilitating communication with residents and enabling on-line payments of rents and fees, on-line lease applications and improved web-based marketing programs.

Property and Asset Management Focus

We have traditionally emphasized property management, and over the past several years, we have deepened our asset management functions to provide additional support in marketing, training, ancillary income and revenue management. A majority of our property managers are Certified Apartment Managers, a designation established by the National Apartment Association, which provides training for on-site manager professionals. We also provide our own in-house leadership development program consisting of a three-module program followed by two comprehensive case studies, which was developed with the assistance of U.S. Learning, Inc.

ACQUISITION AND JOINT VENTURE STRATEGY

One of our growth strategies is to acquire and redevelop apartment communities for our wholly-owned portfolio that are diversified over both large and secondary markets throughout the Sunbelt region of the United States and that meet our investment criteria. We have extensive experience and research-based skills in the acquisition and repositioning of multifamily communities. In addition, we will acquire newly built and developed communities that can be purchased on a favorable pricing basis. We will continue to evaluate opportunities that arise, and will utilize this strategy to increase the number of apartment communities in strong and growing markets.

Another of our growth strategies is to co-invest with partners in joint venture opportunities to the extent we believe that a joint venture will enable us to obtain a higher return on our investment through management and other fees, which leverage our skills in acquiring, repositioning, redeveloping and managing multifamily investments. In addition, the joint venture investment strategy can provide a platform for creating more capital diversification and lower investment risk for us. At present, we have focused our joint venture investment strategy on properties seven years old or older, with younger acquisitions becoming part of the wholly-owned portfolio.

As of December 31, 2012, for this strategy we were partners in three joint ventures: Mid-America Multifamily Fund I, LLC, or Fund I; Mid-America Multifamily Fund II, LLC, or Fund II; and Mid-America Multifamily Fund III, LLC, or Fund III. These joint ventures did not acquire any properties during 2012.

The following apartment communities were acquired for our wholly-owned portfolio during the year ended December 31, 2012:

Property	Location	Number of Units	Date Purchased
100% Owned Properties:			
Adalay Bay	Chesapeake, VA	240	April 2, 2012
Legacy at Western Oaks	Austin, TX	479	April 5, 2012
Allure in Buckhead Village	Atlanta, GA	230	May 10, 2012
Allure at Brookwood	Atlanta, GA	349	July 23, 2012
Retreat at Lake Nona	Orlando, FL	394	August 20, 2012
The Haven at Blanco	San Antonio, TX	436	August 30, 2012
Market Station	Kansas City, MO	323	September 20, 2012
Village Oaks [1]	Temple Terrace (Tampa), FL	1	December 21, 2012
		2,452	

[1] On August 27, 2008, we purchased 215 units of the 234-unit Village Oaks apartments located in Temple Terrace, Florida, a suburb of Tampa. The remaining 19 units had previously been sold as condominiums, and it is our intent to acquire these units if and when they become available and operate them as apartment rentals with the rest of the community. During the remainder of 2008, we acquired four of the remaining 19 units. We acquired an additional

seven units in 2009, three units in 2010, and two units in 2011.

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DISPOSITION STRATEGY

At 15 years weighted average age (based on gross asset values), we believe that we have one of the younger portfolios in the multifamily REIT sector and strive to maintain a well-conditioned portfolio of young assets, believing that continuous capital replacement and maintenance will lead to higher long-run returns on investment. From time-to-time, we dispose of mature assets, defined as those apartment communities that no longer meet our investment criteria and long-term strategic objectives, to ensure that our portfolio consists primarily of high quality, well-located properties within our market area. Typically, we select assets for disposition that do not meet our present investment criteria, including estimated future return on investment, location, market, potential for growth and capital needs. From time-to-time we also may dispose of assets for which we receive an offer meeting or exceeding our return on investment criteria even though those assets may not meet the disposition criteria disclosed above. During 2012, we disposed of nine properties totaling 2,254 units.

DEVELOPMENT AND REDEVELOPMENT STRATEGY

Periodically, we invest in limited expansion development projects through fee-based development agreements using fixed price or cost controlled construction contracts. These contracts can have variability to cover any project cost overruns that may occur. Some development agreements require that cost overruns are contractually shared with the developer up to a specified level, while other development agreements stipulate that cost overruns are the responsibility of the developer. In October 2010, we purchased land in Franklin (Nashville), Tennessee and entered into an agreement to develop a 428-unit apartment community on the site. Construction began in late 2010. As of December 31, 2012, all 428 units have been completed and were 77% leased up. During 2011, we also began developing a 210-unit phase II to the 1225 South Church apartments in Charlotte, North Carolina that were purchased in December 2010. As of December 31, 2012, no units have been delivered for 1225 South Church. We purchased land in Little Rock, Arkansas during 2011 and entered into a development agreement to develop a 312-unit apartment community on the site. All 312 units for the Little Rock development have been completed and delivered and were 77% leased up as of December 31, 2012. During 2012, we purchased 10.6 acres of land and began construction on a new 270-unit community located in the Charleston, South Carolina metropolitan area. As of December 31, 2012, no units have been delivered for the land in Charleston, South Carolina. During 2012, we also purchased 2.0 acres of land and began construction on a new 294-unit community located in Jacksonville, Florida. As of December 31, 2012, no units have been delivered. While we seek opportunistic new development investments offering attractive long-term investment returns, we do not currently intend to maintain a dedicated development staff or to expand into development in a significant way. We expect our investment in new development will remain a smaller component of overall growth as compared to growth through acquiring existing properties.

Beginning in 2005, we began an initiative of upgrading a significant number of our existing apartment communities in key markets across our portfolio. We focus on both interior unit upgrades and shared exterior amenities above and beyond routine capital upkeep in markets that we believe continue to have growth potential and can support the increased rent. During the year ended December 31, 2012, we renovated 3,236 units at an average rental rate that we believe was approximately 10% above the normal market rate increase.

CAPITAL STRUCTURE STRATEGY

We use a combination of debt and equity sources to fund our portfolio of assets, focused on producing low costs combined with a flexible capital structure. We focus on improving the net present value of our assets by generating cash flows from our portfolio of investments above the estimated total cost of debt and equity capital. We routinely make new investments when we believe it will be accretive to shareholder value. In the past, we have sold assets to fund share repurchases when, in management’s view, shareholder value would be enhanced.

At December 31, 2012, 37% of our total capitalization consisted of borrowings, including 26% under our secured borrowings and 11% under our unsecured credit facilities or unsecured senior notes. We currently intend to target our total debt to a range of approximately 43% to 48% of the undepreciated book value of our assets. Our charter and bylaws do not limit our debt levels and our Board of Directors can modify this policy at any time, which could allow us to become more highly leveraged. We may also issue new equity to maintain our debt within the target range. Covenants in our credit facilities limit our net-debt (total debt less cash on hand) to undepreciated book value to 60%. As of December 31, 2012, our ratio of net-debt to undepreciated book value was approximately 44%.

We continuously review opportunities for lowering our cost of capital and increasing net present value per share. We have received an investment grade rating from all three major rating agencies. These ratings support our plan to broaden our capital sources to include additional unsecured debt in order to take advantage of lower cost of capital in the public bond market. We evaluate opportunities to repurchase shares when we believe that our share price is below our net present value. We

also look for opportunities where we can acquire or develop apartment communities, selectively funded or partially funded by sales of equity securities, when appropriate opportunities arise. We will also opportunistically seek to lower our cost of capital through issuing, refinancing or redeeming preferred stock.

We have entered into sales agreements to sell shares of our common stock, from time-to-time in at-the-market offerings or negotiated transactions through controlled equity offering programs, or ATMs, most recently with Cantor Fitzgerald & Co., Raymond James & Associates, Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated. As of December 31, 2012, there were 578,015 shares remaining under the ATM program. At December 31, 2012, we were nearing the end of these agreements so on February 7, 2013 we terminated these programs. We anticipate entering into similar agreements in the near future.

The following are the issuances of common stock which have been made through these agreements through December 31, 2012:

	Number of Shares Sold	Net Proceeds	Net Average Sales Price	Gross Proceeds	Gross Average Sales Price
2006	194,000	$11,481,292	$59.18	$11,705,010	$60.34
2007	323,700	$18,773,485	$58.00	$19,203,481	$59.32
2008	1,955,300	$103,588,759	$52.98	$105,554,860	$53.98
2009	763,000	$32,774,757	$42.96	$33,283,213	$43.62
2010	5,077,201	$274,576,677	$54.08	$278,468,323	$54.85
2011	3,303,273	$204,534,677	$61.92	$207,650,656	$62.86
2012	1,155,511	$75,863,040	$65.65	$77,019,121	$66.65
Total	12,771,985	$721,592,687	$56.50	$732,884,664	$57.38

We also have a direct stock purchase plan, which allows for the optional cash purchase of common stock of at least $250, but not more than $5,000 in any given month, free of brokerage commissions and charges. We, in our absolute discretion, may grant waivers to allow for optional cash payments in excess of $5,000. During the year ended December 31, 2012, we issued a total of 729 shares through the optional cash purchase feature of our direct stock purchase plan, resulting in net proceeds of $48,000. 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. This transaction resulted in net proceeds of $120.1 million. No such issuances occurred during 2011 or 2010.

SHARE REPURCHASE PROGRAM

In 1999, our Board of Directors approved an increase in the number of shares of our common stock authorized to be repurchased to 4 million shares. As of December 31, 2012, we had repurchased a total of approximately 1.9 million shares (8% of the shares of common stock and common units outstanding as of the beginning of the repurchase program). From time-to-time, we intend to repurchase shares when we believe that shareholder value is enhanced. Factors affecting this determination include, among others, the share price, financing agreements and rates of return. No shares were repurchased from 2002 through 2012 under this plan.

COMPETITION

All of our apartment communities are located in areas that include other apartment communities. Occupancy and rental rates are affected by the number of competitive apartment communities in a particular area. The owners of

competing apartment communities may have greater resources than us, and the managers of these apartment communities may have more experience than our management. Moreover, single-family rental housing, manufactured housing, condominiums and the new and existing home markets provide housing alternatives to potential residents of apartment communities.

Apartment communities compete on the basis of monthly rent, discounts and facilities offered, such as apartment size and amenities, and apartment community amenities, including recreational facilities, resident services and physical property condition. We make capital improvements to both our apartment communities and individual apartments on a regular basis in order to maintain a competitive position in each individual market.

ENVIRONMENTAL MATTERS

As part of the acquisition process, we obtain environmental studies on our apartment communities from various outside environmental engineering firms. The purpose of these studies is to identify potential sources of contamination at the apartment communities and to assess the status of environmental regulatory compliance. These studies generally include historical reviews of the apartment communities, reviews of certain public records, preliminary investigations of the sites and surrounding properties, inspection for the presence of asbestos, poly-chlorinated biphenyls, or PCBs, and underground storage tanks and the preparation and issuance of written reports. Depending on the results of these studies, more invasive procedures, such as soil sampling or ground water analysis, will be performed to investigate potential sources of contamination. These studies must be satisfactorily completed before we take ownership of an acquisition community; however, no assurance can be given that the studies identify all significant environmental problems.

Under various federal, state and local laws and regulations, an owner or operator of real estate may be liable for the costs of removal or remediation of certain hazardous or toxic substances on properties. Such laws often impose such liability without regard to whether the owner caused or knew of the presence of hazardous or toxic substances and whether the storage of such substances was in violation of a resident’s lease. Furthermore, the cost of remediation and removal of such substances may be substantial, and the presence of such substances, or the failure to promptly remediate such substances, may adversely affect the owner’s ability to sell such real estate or to borrow using such real estate as collateral.

We are aware of environmental concerns specifically relating to potential issues resulting from mold in residential properties and have in place an active management and preventive maintenance program that includes procedures specifically related to mold. We have established a policy requiring residents to sign a mold addendum to lease. We also have a $5 million insurance policy that covers remediation and exposure to mold. Therefore, we believe that our exposure to this issue is mitigated appropriately.

The environmental studies we received have not revealed any material environmental liabilities. We are not aware of any existing conditions that would currently be considered a material environmental liability. Nevertheless, it is possible that the studies do not reveal all environmental liabilities or that there are material environmental liabilities of which we are not aware. Moreover, no assurance can be given concerning future laws, ordinances or regulations, or the potential introduction of hazardous or toxic substances by neighboring properties or residents.

We believe that our apartment communities are in compliance in all material respects with all applicable federal, state and local ordinances and regulations regarding hazardous or toxic substances and other environmental matters.

WEBSITE ACCESS TO REGISTRANT’S REPORTS

We file annual and periodic reports with the Securities and Exchange Commission. All filings made by us with the SEC may be copied or read at the SEC’s Public Reference Room at 100 F Street NE, Washington, DC 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC as we do. The website is http://www.sec.gov.

Additionally, a copy of this Annual Report on Form 10-K, along with our Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to the aforementioned filings, are available on our website free of charge. The filings can be found on the "For Investors" page under "SEC Filings and Reports". Our website also contains our Corporate Governance Guidelines, Code of Business Conduct and Ethics and the charters of the committees of the Board of Directors. These items can be found on the "For Investors" page under "Corporate Overview and

Governance Documents". Our website address is http://www.maac.com. Reference to our website does not constitute incorporation by reference of the information contained on the site and should not be considered part of this document. All of the aforementioned materials may also be obtained free of charge by contacting our Investor Relations Department, 6584 Poplar Avenue, Memphis, TN 38138.

QUALIFICATION AS A REAL ESTATE INVESTMENT TRUST (REIT)

We have elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended, or the Code. To continue to qualify as a REIT, we must continue to meet certain tests which, among other things, generally require that our assets consist primarily of real estate assets, our income be derived primarily from real estate assets, and that we distribute at least 90% of our REIT taxable income (other than our net capital gain) to our shareholders annually. As a qualified REIT, we generally will not be subject to U.S. federal income taxes at the corporate level on our net income to the extent we distribute such net income to our shareholders annually. Even if we continue to qualify as a REIT, we will continue to be subject to

certain federal, state and local taxes on our income and our property. In 2012, we paid total distributions of $2.64 per common share to our shareholders, which was above the 90% REIT distribution requirement.

RECENT DEVELOPMENTS

Acquisitions

On February 1, 2013, we closed on the purchase of the 310-unit Milstead Village apartment community located in Kennesaw (Atlanta), Georgia. This property was previously a part of our Fund I Joint Venture.

ITEM 1A. RISK FACTORS

In addition to the other information contained in this Annual Report on Form 10-K, we have identified the following additional risks and uncertainties that may have a material adverse effect on our business prospects, 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 prospects, results of operations or financial condition could suffer, the market price of our common stock and the trading price of our debt securities could decline and you could lose all or part of your investment in our common stock or debt securities.

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 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 effected. 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, could be adversely affected by increases in supply and deterioration in multifamily markets and is partially 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, which would adversely effect our revenues.

Failure to generate sufficient cash flows could limit our ability to make payments on our debt and to pay distributions to shareholders

Our ability to generate sufficient cash flow to make payments on our debt and 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 that 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 make payments on our debt and 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 or the trading price of our debt securities.

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. The federal legislative response in this area culminated 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, taxes, or other costs 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 one or 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 results of operations.

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 seven communities, which are subject to restrictions on sale and are required to be exchanged through a 1031(b) 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 service our debt and to make distributions to our shareholders.

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.

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.

It is unclear at this time if or how the SEC will transition from GAAP to IFRS. 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

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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 effect 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 or rebuild a property after it has been damaged or destroyed.

Increasing real estate taxes and insurance costs may negatively impact operating results

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 are, in large part, outside of our control. If the costs associated with real estate taxes and insurance should significantly rise, our operating results could be negatively impacted, and our ability to service our debt and to make distributions to our shareholders could be adversely 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 significant in the event of a catastrophic loss or a series of major losses, which 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 two development communities and a second phase to an existing community under construction totaling 774 units as of December 31, 2012. None of the units for the development projects have been completed as of December 31, 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 or higher than expected concessions for lease up and lower rents than expected;
- 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 financial 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 impact our financial condition

On February 11, 2011, the Obama Administration released a report to Congress that 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 December 31, 2012, 48% 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 2013 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, which may not be available on terms acceptable to us, or at all. 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 several 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. 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.

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 both a secured and unsecured basis. Certain of our debt agreements require us to post collateral and 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 effect 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 December 31, 2012, we had total debt outstanding of $1.67 billion. Payments of principal and interest on borrowings may leave us with insufficient cash resources to operate the apartment communities or to pay distributions to shareholders 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 43% to 48% of the undepreciated book value of our assets. Our charter and bylaws do not limit our debt levels and our Board of Directors can modify this policy at any time, which could allow us to become more highly leveraged. We may also issue new equity to maintain our debt within the target range. Covenants in our credit facilities limit our net-debt (total debt less cash on hand) to undepreciated book value to 60%. As of December 31, 2012, our ratio of net-debt to undepreciated book value was approximately 44%. In addition, we must repay our debt upon maturity, and the inability to access debt or equity capital at attractive rates to refinance maturing debt could adversely affect our financial condition and/or our funds from operations. We rely on our lenders for our debt financing and have agreements with the lenders that require us to comply with certain covenants, including maintaining adequate collateral that is subject to revaluation annually. 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 be ineffective

We rely on the financial markets to refinance debt maturities, and also rely on the Agencies, which provided credit or credit enhancement for a large portion of our outstanding debt as of December 31, 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 31 basis points below the associated LIBOR rate, but in the past 4 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 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 95% 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 the value of the swap or cap would be recorded in earnings, possibly causing a substantial loss sufficient to cause a breach 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 & Poors, 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 our debt covenants.

Variable interest rates may adversely affect funds from operations

At December 31, 2012, effectively $79 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 service our debt and to pay distributions to shareholders. Our $884.2 million secured credit facilities with Prudential Mortgage Capital, credit enhanced by FNMA, are predominately floating rate facilities. We also have credit facilities with Freddie Mac totaling $200.0 million that are variable rate facilities. At December 31, 2012, a total of $803.3 million was outstanding under these facilities. These facilities represent the majority of the variable interest rates we were exposed to at December 31, 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 or alternate fixed financings 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 increased 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 all outstanding shares of our capital stock, both common and preferred, unless approved by our Board of Directors. 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 (by value). 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 principal price paid for the shares by the holder,
a price per share equal to the market price (as determined in the manner set forth in our charter) of the applicable capital stock,
the market price (as so determined) on the date such holder would, but for the restrictions on transfers set forth in our charter, be deemed to have acquired ownership of the shares and
the maximum price allowed under Tennessee Greenmail Act (such price being the average of the highest and lowest closing market price for the shares during the 30 trading days preceding the purchase of such shares or, if the holder of such shares has commenced a tender offer or has announced an intention to seek control of us, during the 30 trading days preceding the commencement of such tender offer or the making of such announcement).

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The redemption price may be paid, at our option, by delivering one common unit (subject to adjustment from time to time in the event of, among other things, stock splits, stock dividends, or recapitalizations affecting our common stock or certain mergers, consolidations or asset transfers by us) issued by our Operating Partnership for each Excess Share being redeemed.

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. Our 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 December 31, 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 joint owners may 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 the NYSE, the daily trading volume of our shares may be lower than the trading volume for companies in 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 results of operations 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 service our debt and to pay distributions to our shareholders. Our failure to meet the market's expectations with regard to future results of operations and cash distributions would likely adversely affect the market price of our shares.

The stock markets, including the 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 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 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 or sale 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 cash available for investment or to service our debt or to make 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 stockholders 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 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

We seek to acquire newer apartment communities and those with opportunities for repositioning through capital additions and management improvement located in the Sunbelt region of the United States that are primarily appealing to middle income residents with the potential for above average growth and return on investment. Approximately 69% of our apartment units are located in Georgia, Florida, Tennessee, and Texas markets. Our strategic focus is to provide our residents high quality apartment units in attractive community settings, characterized by extensive landscaping and attention to aesthetic detail. We utilize our experience and expertise in maintenance, landscaping, marketing and management to effectively reposition many of the apartment communities we acquire to raise occupancy levels and per unit average rents.

The following table sets forth certain historical information for the apartment communities we owned at December 31, 2012:

Property	Location	Approx-imate Rentable Area (Square	Aver-age Unit Size (Square	Monthly Average Rent per Unit at	Average Occupancy Percent at	Monthly Effective Rent per Unit at	Encu Dece Mort- /Bon

		Year Complete	Year Manage-ment Commenced	Report-able Seg-ment	Number of Units	Footage)	Foot-age)	December 31, 2012 (19)	December 31, 2012 (20)	December 31, 2012 (21)	Princ (000's
100% Owned											
Birchall at Ross Bridge	Birmingham, AL	2009	2011	(24)	240	283,680	1,182	$1,252.58	85.83%	$1,239.16	$—
Eagle Ridge	Birmingham, AL	1986	1998	(23)	200	181,600	908	$744.84	97.00%	$741.79	$—
Abbington Place	Huntsville, AL	1987	1998	(23)	152	162,792	1,071	$650.31	93.42%	$621.35	$—
Paddock Club Huntsville	Huntsville, AL	1993	1997	(23)	392	441,000	1,125	$755.89	92.86%	$746.08	$—
Paddock Club Montgomery	Montgomery, AL	1999	1998	(23)	208	246,272	1,184	$776.46	97.12%	$775.98	$—
					1,192	1,315,344	1,103	$844.17	92.95%	$833.95	

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Calais Forest	Little Rock, AR	1987	1994	(23)	260	195,000	750	$742.40	98.08	%	$741.44	$—	(1)		(1
Napa Valley	Little Rock, AR	1984	1996	(23)	240	183,120	763	$679.63	95.83	%	$679.63	$—	(1)		(1
Palisades at Chenal Valley	Little Rock, AR	2006	2011	(24)	248	319,672	1,289	$1,113.18	93.95	%	$1,113.18	$—			
The Ridge at Chenal Valley	Little Rock, AR	2012	2011	(24)	312	340,080	1,090	$1,026.64	77.24	%	$1,005.19	$—			
Westside Creek I & II	Little Rock, AR	1985	1997	(23)	308	304,612	989	$764.73	94.81	%	$764.73	$—	(1)		(1
					1,368	1,342,484	981	$868.46	91.45	%	$863.38				
Edge at Lyon's Gate	Phoenix, AZ	2007	2008	(22)	312	299,208	959	$855.19	95.19	%	$845.48	$—			
Sky View Ranch	Gilbert, AZ	2007	2009	(22)	232	225,272	971	$848.14	96.12	%	$842.97	$—			
Talus Ranch	Phoenix, AZ	2005	2006	(22)	480	437,280	911	$722.54	95.42	%	$714.42	$—			
					1,024	961,760	939	$791.41	95.51	%	$783.48				
Tiffany Oaks	Altamonte Springs, FL	1985	1996	(22)	288	232,704	808	$780.26	93.75	%	$775.28	$—	(1)		(1
Marsh Oaks	Atlantic Beach, FL	1986	1995	(22)	120	93,240	777	$702.23	100.00	%	$702.23	$—			
Indigo Point	Brandon, FL	1989	2000	(23)	240	194,640	811	$825.90	95.42	%	$813.65	$—	(1)		(1
Paddock Club Brandon	Brandon, FL	1998	1997	(22)	440	528,440	1,201	$957.56	92.95	%	$955.70	$—			
Preserve at Coral Square	Coral Springs, FL	1996	2004	(23)	480	570,720	1,189	$1,384.04	93.75	%	$1,375.89	$—	(4)		(4
Anatole	Daytona Beach, FL	1986	1995	(23)	208	150,384	723	$703.65	96.63	%	$695.23	$6,967	(7)	1.048%	(7
Paddock Club Gainesville	Gainesville, FL	1999	1998	(23)	264	326,304	1,236	$915.02	91.29	%	$885.91	$—			
The Retreat at Magnolia Parke	Gainesville, FL	2009	2011	(24)	204	206,244	1,011	$970.44	95.59	%	$961.15	$—			
Atlantic Crossing	Jacksonville, FL	2008	2011	(24)	200	248,200	1,241	$1,157.79	92.00	%	$1,135.12	$—			
Cooper's Hawk	Jacksonville, FL	1987	1995	(22)	208	218,400	1,050	$832.70	97.60	%	$829.83	$—			
Hunter's Ridge at Deerwood	Jacksonville, FL	1987	1997	(22)	336	295,008	878	$816.92	97.32	%	$812.89	$—			
Lakeside	Jacksonville, FL	1985	1996	(22)	416	346,112	832	$728.75	96.39	%	$727.84	$—			
Lighthouse at Fleming Island	Jacksonville, FL	2003	2003	(22)	501	556,110	1,110	$909.13	97.41	%	$907.04	$—	(1)		(1

Paddock Club Jacksonville	Jacksonville, FL	1993	1997	(22)	440	478,720	1,088	$834.31	95.00	%	$819.84	$—			
Paddock Club Mandarin	Jacksonville, FL	1998	1998	(22)	288	334,656	1,162	$907.23	95.83	%	$904.45	$—			
St. Augustine I	Jacksonville, FL	1987	1995	(22)	400	319,600	799	$710.02	97.50	%	$704.83	$13,235	(17)(18)		(1
St. Augustine II	Jacksonville, FL	2008	1995	(22)	124	118,544	956	$916.80	97.58	%	$902.67	$—	(1)		(1
Tattersall at Tapestry Park	Jacksonville, FL	2009	2011	(24)	279	307,458	1,102	$1,240.52	97.85	%	$1,237.95	$—			
Woodbridge at the Lake	Jacksonville, FL	1985	1994	(22)	188	166,004	883	$720.42	95.21	%	$719.93	$—			
Woodhollow	Jacksonville, FL	1986	1997	(22)	450	379,350	843	$726.75	94.44	%	$723.99	$—	(1)		(1
Paddock Club Lakeland	Lakeland, FL	1989	1997	(23)	464	502,048	1,082	$746.51	94.40	%	$741.02	$—	(1)		(1
Savannahs at James Landing	Melbourne, FL	1990	1995	(23)	256	243,200	950	$738.82	97.27	%	$737.07	$—			
Paddock Park Ocala	Ocala, FL	1987	1997	(23)	480	493,440	1,028	$691.48	95.42	%	$687.36	$6,772	(3)		(3
Retreat at Lake Nona	Orlando, FL	2006	2012	(24)	394	421,186	1,069	$1,008.53	95.18	%	$1,007.75	$—			
The Club at Panama Beach	Panama City, FL	2000	1998	(23)	254	283,718	1,117	$928.93	96.06	%	$913.65	$—			
Paddock Club Tallahassee	Tallahassee, FL	1992	1997	(23)	304	329,536	1,084	$837.06	95.72	%	$828.58	$—			
Belmere	Tampa, FL	1984	1994	(22)	210	202,440	964	$839.37	94.76	%	$832.88	$—	(1)		(1
Links at Carrollwood	Tampa, FL	1980	1998	(22)	230	213,210	927	$891.14	99.13	%	$890.22	$—			
Village Oaks	Tampa, FL	2005	2008	(24)	234	279,864	1,196	$1,086.18	95.30	%	$1,066.18	$—			
Park Crest at Innisbrook	Palm Harbor, FL	2000	2009	(22)	432	461,808	1,069	$987.65	93.75	%	$985.44	$30,114		4.430%	
					9,332	9,501,288	1,018	$886.04							