MID AMERICA APARTMENT COMMUNITIES INC
Form 10-Q
July 31, 2015

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

FORM 10-Q

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

For the quarterly period ended June 30, 2015
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 Number)

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 ý	NO o
Mid-America Apartments, L.P.	YES ý	NO o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Mid-America Apartment Communities, Inc.	YES ý	NO o
Mid-America Apartments, L.P.	YES ý	NO o

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

Mid-America Apartment Communities, Inc.				
	Large accelerated filer ý	Accelerated filer o	Non-accelerated filer o	Smaller reporting company o
			(Do not check if a smaller reporting company)	
Mid-America Apartments, L.P.				
	Large accelerated filer o	Accelerated filer o	Non-accelerated filer ý	Smaller reporting company o
			(Do not check if a smaller reporting company)	

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

Mid-America Apartment Communities, Inc.	YES o	NO ý
Mid-America Apartments, L.P.	YES o	NO ý

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

Class	Number of Shares Outstanding at July 27, 2015
Common Stock, $0.01 par value	75,374,868

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

TABLE OF CONTENTS

Explanatory Note

This periodic report on Form 10-Q, or Report, combines the Reports for the quarter ended June 30, 2015 of Mid-America Apartment Communities, Inc., a Tennessee corporation and Mid-America Apartments, L.P., a Tennessee limited partnership, of which Mid-America Apartment Communities, Inc. is the sole general partner. Mid-America Apartment Communities, Inc. and its 94.7% 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, the 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 limited partnership interests of the Operating Partnership are referred to as "OP Units" and the holders of the OP Units are referred to as "unitholders".

As of June 30, 2015, MAA owned 75,375,027 units (or approximately 94.7%) of the limited partnership interests of the Operating Partnership. 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 Reports of MAA and the Operating Partnership, including the notes to the condensed consolidated financial statements, into this single 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 limited partners. MAA's only material asset is its ownership of limited partner 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 partner 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 are the principal areas of difference between the consolidated financial statements of MAA and those of the Operating Partnership. MAA's shareholders' equity may include shares of preferred stock, shares of common stock, additional paid-in capital, cumulative earnings, cumulative distributions, noncontrolling interest, 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' preferred capital, limited partners' noncontrolling interest, accumulated other comprehensive income and redeemable common units. Redeemable common units represent the number of outstanding OP Units as of the date of the applicable balance sheet, valued for conversion 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 common units in the Operating Partnership (other than MAA and its entity affiliates) may require the Operating Partnership to redeem their common units, in which case the Operating Partnership may, at its option, pay the redemption price either in cash (in an amount per common unit equal, in general, to the average closing price of MAA’s common stock on the New York Stock Exchange, or "NYSE", over a specified period of time prior to the redemption date) or by delivering one share of our common stock (subject to adjustment under specified circumstances) for each common 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 consolidated financial statements in Item 1 of this Report;
- certain accompanying notes to the financial statements, including Note 2 - Earnings per Common Share of MAA and Note 3 - Earnings per OP Unit of MAALP; and Note 9 - Shareholders' Equity of MAA and Note 10 - Partners' Capital of Mid-America Apartments, L.P.;
- 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
June 30, 2015 and December 31, 2014
(Unaudited)
(Dollars in thousands, except share data)

	June 30, 2015	December 31, 2014
Assets:		
Real estate assets:		
Land	$904,504	$913,408
Buildings and improvements	6,705,727	6,781,210
Furniture, fixtures and equipment	214,943	214,742
Development and capital improvements in progress	69,975	80,772
	7,895,149	7,990,132
Less accumulated depreciation	(1,338,726)	(1,358,400)
	6,556,423	6,631,732
Undeveloped land	52,629	55,997
Corporate properties, net	8,331	7,988
Investments in real estate joint ventures	1,809	1,791
Assets held for sale	64,265	—
Real estate assets, net	6,683,457	6,697,508
Cash and cash equivalents	30,030	26,653
Restricted cash	53,406	28,181
Deferred financing costs, net	12,764	17,812
Other assets	62,149	61,119
Goodwill	1,607	2,321
Total assets	$6,843,413	$6,833,594
Liabilities and equity:		
Liabilities:		
Secured notes payable	$1,413,793	$1,592,116
Unsecured notes payable	2,028,451	1,932,399
Accounts payable	11,884	8,395
Fair market value of interest rate swaps	13,071	13,392
Accrued expenses and other liabilities	215,134	219,044
Security deposits	11,281	10,526
Liabilities associated with assets held for sale	1,216	—
Total liabilities	3,694,830	3,775,872
Redeemable stock	6,298	5,911
Shareholders' equity:		
Common stock, $0.01 par value per share, 100,000,000 shares authorized; 75,375,027 and 75,267,675 shares issued and outstanding at June 30, 2015 and December 31, 2014, respectively [1]	754	752
Additional paid-in capital	3,622,323	3,619,270
Accumulated distributions in excess of net income	(647,413)	(729,086)

Accumulated other comprehensive income (loss)	952	(412)
Total MAA shareholders' equity	2,976,616	2,890,524
Noncontrolling interest	165,669	161,287
Total equity	3,142,285	3,051,811
Total liabilities and equity	$6,843,413	$6,833,594

(1) Number of shares issued and outstanding represent total shares of common stock regardless of classification on the consolidated balance sheet. The number of shares classified as redeemable stock on the consolidated balance sheet for June 30, 2015 and December 31, 2014 are 86,495 and 87,818, respectively.

See accompanying notes to condensed consolidated financial statements.

4

Mid-America Apartment Communities, Inc.
Condensed Consolidated Statements of Operations
Three and six months ended June 30, 2015 and 2014
(Unaudited)
(Dollars in thousands, except per share data)

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Operating revenues:				
Rental revenues	$236,165	$223,361	$471,106	$445,111
Other property revenues	22,726	21,883	46,337	44,285
Total property revenues	258,891	245,244	517,443	489,396
Management fee income	—	61	—	143
Total operating revenues	258,891	245,305	517,443	489,539
Property operating expenses:				
Personnel	25,872	25,195	51,533	50,118
Building repairs and maintenance	7,778	7,533	14,403	14,298
Real estate taxes and insurance	32,805	30,829	66,126	62,103
Utilities	21,596	21,559	43,673	43,141
Landscaping	5,687	6,040	11,132	11,489
Other operating	7,118	6,742	14,638	14,377
Depreciation and amortization	74,396	69,631	147,508	159,644
Total property operating expenses	175,252	167,529	349,013	355,170
Acquisition expense	1,159	947	1,499	958
Property management expenses	6,986	9,579	15,478	16,590
General and administrative expenses	6,657	5,212	13,224	9,554
Merger related expenses	—	795	—	2,871
Integration related expenses	—	3,151	—	6,993
Income from continuing operations before non-operating items	68,837	58,092	138,229	97,403
Interest and other non-property income (expense)	29	899	(180)	1,040
Interest expense	(29,528)	(30,163)	(59,459)	(60,839)
Loss on debt extinguishment	(3)	—	(3,379)	—
Amortization of deferred financing costs	(905)	(1,174)	(1,822)	(2,485)
Net casualty gain (loss) after insurance and other settlement proceeds	510	(295)	490	(305)
Gain on sale of depreciable real estate assets excluded from discontinued operations	105,182	3,658	135,410	6,222
Gain (loss) on sale of non-depreciable real estate assets	172	(22)	172	535
Income before income tax expense	144,294	30,995	209,461	41,571
Income tax expense	(398)	(523)	(907)	(793)
Income from continuing operations before joint venture activity	143,896	30,472	208,554	40,778
(Loss) gain from real estate joint ventures	(23)	2,919	(4)	2,895
Income from continuing operations	143,873	33,391	208,550	43,673
Discontinued operations:				
Loss from discontinued operations before gain on sale	—	(4)	—	(51)
Net casualty loss after insurance and other settlement proceeds on discontinued operations	—	(1)	—	(3)
Gain on sale of discontinued operations	—	—	—	5,481
Consolidated net income	143,873	33,386	208,550	49,100
Net income attributable to noncontrolling interests	7,574	1,773	10,984	2,621

Net income available for MAA common shareholders	$136,299	$31,613	$197,566	$46,479
Earnings per common share - basic:				
Income from continuing operations available for common shareholders	$1.81	$0.42	$2.62	$0.55
Discontinued property operations	—	—	—	0.07
Net income available for common shareholders	$1.81	$0.42	$2.62	$0.62
Earnings per common share - diluted:				
Income from continuing operations available for common shareholders	$1.81	$0.42	$2.62	$0.55
Discontinued property operations	—	—	—	0.07
Net income available for common shareholders	$1.81	$0.42	$2.62	$0.62
Dividends declared per common share	$0.77	$0.73	$1.54	$1.46

See accompanying notes to condensed consolidated financial statements.

Mid-America Apartment Communities, Inc.
Condensed Consolidated Statements of Comprehensive Income
Three and six months ended June 30, 2015 and 2014
(Unaudited)
(Dollars in thousands)

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Consolidated net income	$143,873	$33,386	$208,550	$49,100
Other comprehensive income:				
Unrealized gain (loss) from the effective portion of derivative instruments	1,804	(7,403)	(2,543)	(8,400)
Reclassification adjustment for net losses included in net income for the effective portion of derivative instruments	1,791	3,085	3,983	6,810
Total comprehensive income	147,468	29,068	209,990	47,510
Less: comprehensive loss attributable to noncontrolling interests	(7,764)	(1,542)	(11,060)	(2,534)
Comprehensive income attributable to MAA	$139,704	$27,526	$198,930	$44,976

See accompanying notes to condensed consolidated financial statements.

Mid-America Apartment Communities, Inc.
Condensed Consolidated Statements of Cash Flows
Six months ended June 30, 2015 and 2014
(Unaudited)
(Dollars in thousands)

	Six months ended June 30,	
	2015	2014
Cash flows from operating activities:		
Consolidated net income	$208,550	$49,100
Adjustments to reconcile net income to net cash provided by operating activities:		
Retail revenue accretion	(820)	(12)
Depreciation and amortization	149,587	162,099
Stock compensation expense	2,763	2,045
Redeemable stock issued	560	507
Amortization of debt premium	(10,339)	(14,648)
Loss (gain) from investments in real estate joint ventures	6	(2,878)
Loss on debt extinguishment	2,785	—
Derivative interest (credit) expense	(1,021)	402
Settlement of forward swaps	—	(3,625)
Gain on sale of non-depreciable real estate assets	(172)	(535)
Gain on sale of depreciable real estate assets excluded from discontinued operations	(135,410)	(6,222)
Gain on sale of discontinued operations	—	(5,481)
Net casualty (gain) loss and other settlement proceeds	(490)	308
Changes in assets and liabilities:		
Restricted cash	1,720	(5,183)
Other assets	8,562	11,134
Accounts payable	344	229
Accrued expenses and other	(1,204)	594
Security deposits	1,109	526
Net cash provided by operating activities	226,530	188,360
Cash flows from investing activities:		
Purchases of real estate and other assets	(161,892)	(141,795)
Normal capital improvements	(48,099)	(45,695)
Construction capital and other improvements	(3,873)	(5,271)
Renovations to existing real estate assets	(12,747)	(7,801)
Development	(14,420)	(46,346)
Distributions from real estate joint ventures	6	11,541
Contributions to real estate joint ventures	(30)	—
Proceeds from disposition of real estate assets	238,849	125,640
Funding of escrow for future acquisitions	(26,945)	(16,742)
Net cash used in investing activities	(29,151)	(126,469)
Cash flows from financing activities:		
Net change in credit lines	(16,115)	(181,183)
Proceeds from notes payable	—	396,180
Principal payments on notes payable	(55,199)	(230,952)
Payment of deferred financing costs	(178)	(3,395)
Repurchase of common stock	(945)	(336)
Proceeds from issuances of common shares	184	575

Exercise of stock options	420	9,544
Distributions to noncontrolling interests	(6,443)	(6,158)
Dividends paid on common shares	(115,726)	(109,414)
Net cash used in financing activities	(194,002)	(125,139)
Net increase (decrease) in cash and cash equivalents	3,377	(63,248)
Cash and cash equivalents, beginning of period	26,653	89,333
Cash and cash equivalents, end of period	$30,030	$26,085
Supplemental disclosure of cash flow information:		
Interest paid	$71,596	$75,818
Income taxes paid	$2,051	$1,596
Supplemental disclosure of noncash investing and financing activities:		
Conversion of units to shares of common stock	$184	$799
Accrued construction in progress	$11,165	$8,458
Interest capitalized	$964	$850
Marked-to-market adjustment on derivative instruments	$2,484	$1,633
Fair value adjustment on debt assumed	$—	$1,651
Loan assumption	$—	$31,692

See accompanying notes to condensed consolidated financial statements.

Mid-America Apartments, L.P.
Condensed Consolidated Balance Sheets
June 30, 2015 and December 31, 2014
(Dollars in thousands, except unit data)

	June 30, 2015	December 31, 2014
Assets:		
Real estate assets:		
Land	$904,504	$913,408
Buildings and improvements	6,705,727	6,781,210
Furniture, fixtures and equipment	214,943	214,742
Development and capital improvements in progress	69,975	80,772
	7,895,149	7,990,132
Less accumulated depreciation	(1,338,726)	(1,358,400)
	6,556,423	6,631,732
Undeveloped land	52,629	55,997
Corporate properties, net	8,331	7,988
Investments in real estate joint ventures	1,809	1,791
Assets held for sale	64,265	—
Real estate assets, net	6,683,457	6,697,508
Cash and cash equivalents	30,030	26,653
Restricted cash	53,406	28,181
Deferred financing costs, net	12,764	17,812
Other assets	62,149	61,119
Goodwill	1,607	2,321
Total assets	$6,843,413	$6,833,594
Liabilities and Capital:		
Liabilities:		
Secured notes payable	$1,413,793	$1,592,116
Unsecured notes payable	2,028,451	1,932,399
Accounts payable	11,884	8,395
Fair market value of interest rate swaps	13,071	13,392
Accrued expenses and other liabilities	215,134	219,044
Security deposits	11,281	10,526
Due to general partner	19	19
Liabilities associated with assets held for sale	1,216	—
Total liabilities	3,694,849	3,775,891
Redeemable units	6,298	5,911
Capital:		
General partner: 75,375,027 OP Units outstanding at June 30, 2015 and 75,267,675 OP Units outstanding at December 31, 2014 (1)	2,975,586	2,890,858
Limited partners: 4,186,369 OP Units outstanding at June 30, 2015 and 4,191,152 OP Units outstanding at December 31, 2014 (1)	165,616	161,310

Accumulated other comprehensive income (loss)	1,064	(376)
Total capital	3,142,266	3,051,792
Total liabilities and capital	$6,843,413	$6,833,594

(1) Number of units outstanding represent total OP Units regardless of classification on the consolidated balance sheet. The number of units classified as redeemable units on the consolidated balance sheet at June 30, 2015 and December 31, 2014 are 86,495 and 87,818, respectively.

See accompanying notes to condensed consolidated financial statements.

Mid-America Apartments, L.P.
Condensed Consolidated Statements of Operations
Three and six months ended June 30, 2015 and 2014
(Unaudited)
(Dollars in thousands, except per unit data)

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Operating revenues:				
Rental revenues	$236,165	$223,361	$471,106	$445,111
Other property revenues	22,726	21,883	46,337	44,285
Total property revenues	258,891	245,244	517,443	489,396
Management fee income	—	61	—	143
Total operating revenues	258,891	245,305	517,443	489,539
Property operating expenses:				
Personnel	25,872	25,195	51,533	50,118
Building repairs and maintenance	7,778	7,533	14,403	14,298
Real estate taxes and insurance	32,805	30,829	66,126	62,103
Utilities	21,596	21,559	43,673	43,141
Landscaping	5,687	6,040	11,132	11,489
Other operating	7,118	6,742	14,638	14,377
Depreciation and amortization	74,396	69,631	147,508	159,644
Total property operating expenses	175,252	167,529	349,013	355,170
Acquisition expense	1,159	947	1,499	958
Property management expenses	6,986	9,579	15,478	16,590
General and administrative expenses	6,657	5,212	13,224	9,554
Merger related expenses	—	795	—	2,871
Integration related expenses	—	3,151	—	6,993
Income from continuing operations before non-operating items	68,837	58,092	138,229	97,403
Interest and other non-property income (expense)	29	899	(180)	1,040
Interest expense	(29,528)	(30,163)	(59,459)	(60,839)
Loss on debt extinguishment	(3)	—	(3,379)	—
Amortization of deferred financing costs	(905)	(1,174)	(1,822)	(2,485)
Net casualty gain (loss) after insurance and other settlement proceeds	510	(295)	490	(305)
Gain on sale of depreciable real estate assets excluded from discontinued operations	105,182	3,658	135,410	6,222
Gain (loss) on sale of non-depreciable real estate assets	172	(22)	172	535
Income before income tax expense	144,294	30,995	209,461	41,571
Income tax expense	(398)	(523)	(907)	(793)
Income from continuing operations before joint venture activity	143,896	30,472	208,554	40,778
(Loss) gain from real estate joint ventures	(23)	2,919	(4)	2,895
Income from continuing operations	143,873	33,391	208,550	43,673
Discontinued operations:				
Loss from discontinued operations before gain on sale	—	(4)	—	(51)
Net casualty loss after insurance and other settlement proceeds on discontinued operations	—	(1)	—	(3)
Gain on sale of discontinued operations	—	—	—	5,481
Net income available for Mid-America Apartments, L.P. common unitholders	$143,873	$33,386	$208,550	$49,100

Earnings per common unit - basic:				
Income from continuing operations available for common unitholders	$1.81	$0.42	$2.62	$0.55
Income from discontinued operations available for common unitholders	—	—	—	0.07
Net income available for common unitholders	$1.81	$0.42	$2.62	$0.62
Earnings per common unit - diluted:				
Income from continuing operations available for common unitholders	$1.81	$0.42	$2.62	$0.55
Income from discontinued operations available for common unitholders	—	—	—	0.07
Net income available for common unitholders	$1.81	$0.42	$2.62	$0.62
Distributions declared per common unit	$0.77	$0.73	$1.54	$1.46

See accompanying notes to condensed consolidated financial statements.

Mid-America Apartments, L.P.
Condensed Consolidated Statements of Comprehensive Income
Three and six months ended June 30, 2015 and 2014
(Unaudited)
(Dollars in thousands)

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Net income available for Mid-America Apartments, L.P. common unitholders	$143,873	$33,386	$208,550	$49,100
Other comprehensive income:				
Unrealized gain (loss) from the effective portion of derivative instruments	1,804	(7,403)	(2,543)	(8,400)
Reclassification adjustment for net losses included in net income for the effective portion of derivative instruments	1,791	3,085	3,983	6,810
Comprehensive income attributable to Mid-America Apartments, L.P.	$147,468	$29,068	$209,990	$47,510

See accompanying notes to condensed consolidated financial statements.

Mid-America Apartments, L.P.
Condensed Consolidated Statements of Cash Flows
Six months ended June 30, 2015 and 2014
(Unaudited)
(Dollars in thousands)

	Six months ended June 30,	
	2015	2014
Cash flows from operating activities:		
Consolidated net income	$208,550	$49,100
Adjustments to reconcile net income to net cash provided by operating activities:		
Retail revenue accretion	(820)	(12)
Depreciation and amortization	149,587	162,099
Stock compensation expense	2,763	2,045
Redeemable units issued	560	507
Amortization of debt premium	(10,339)	(14,648)
Loss (gain) from investments in real estate joint ventures	6	(2,878)
Loss on debt extinguishment	2,785	—
Derivative interest (credit) expense	(1,021)	402
Settlement of forward swaps	—	(3,625)
Gain on sale of non-depreciable real estate assets	(172)	(535)
Gain on sale of depreciable real estate assets excluded from discontinued operations	(135,410)	(6,222)
Gain on sale of discontinued operations	—	(5,481)
Net casualty (gain) loss and other settlement proceeds	(490)	308
Changes in assets and liabilities:		
Restricted cash	1,720	(5,183)
Other assets	8,562	11,134
Accounts payable	344	229
Accrued expenses and other	(1,204)	594
Security deposits	1,109	526
Net cash provided by operating activities	226,530	188,360
Cash flows from investing activities:		
Purchases of real estate and other assets	(161,892)	(141,795)
Normal capital improvements	(48,099)	(45,695)
Construction capital and other improvements	(3,873)	(5,271)
Renovations to existing real estate assets	(12,747)	(7,801)
Development	(14,420)	(46,346)
Distributions from real estate joint ventures	6	11,541
Contributions to real estate joint ventures	(30)	—
Proceeds from disposition of real estate assets	238,849	125,640
Funding of escrow for future acquisitions	(26,945)	(16,742)
Net cash used in investing activities	(29,151)	(126,469)
Cash flows from financing activities:		
Net change in credit lines	(16,115)	(181,183)
Proceeds from notes payable	—	396,180
Principal payments on notes payable	(55,199)	(230,952)
Payment of deferred financing costs	(178)	(3,395)
Repurchase of common units	(945)	(336)
Proceeds from issuances of common units	184	575

Exercise of unit options	420	9,544
Distributions paid on common units	(122,169)	(115,572)
Net cash used in financing activities	(194,002)	(125,139)
Net increase (decrease) in cash and cash equivalents	3,377	(63,248)
Cash and cash equivalents, beginning of period	26,653	89,333
Cash and cash equivalents, end of period	$30,030	$26,085
Supplemental disclosure of cash flow information:		
Interest paid	$71,596	$75,818
Income taxes paid	$2,051	$1,596
Supplemental disclosure of noncash investing and financing activities:		
Accrued construction in progress	$11,165	$8,458
Interest capitalized	$964	$850
Marked-to-market adjustment on derivative instruments	$2,484	$1,633
Fair value adjustment on debt assumed	$—	$1,651
Loan assumption	$—	$31,692

See accompanying notes to condensed consolidated financial statements.

11

Mid-America Apartment Communities, Inc. and Mid-America Apartments, L.P.
Notes to Condensed Consolidated Financial Statements
June 30, 2015 and 2014
(Unaudited)

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

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

As of June 30, 2015, MAA owned 75,375,027 units (or approximately 94.7%) of the limited partnership interests of the Operating Partnership. 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 notes to the consolidated financial statements of MAA and MAALP results in the following benefits:

- enhances a readers' understanding of MAA and the Operating Partnership by enabling the reader to view the business as a whole in the same manner that management views and operates the business;
- eliminates duplicative disclosure and provides a more streamlined and readable presentation since a substantial portion of the disclosure applies to both MAA and the Operating Partnership.

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 limited partners. MAA's only material asset is its ownership of limited partner 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 OP Units, the Operating Partnership generates the capital required by our 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 are the principal areas of difference between the consolidated financial statements of MAA and those of the Operating Partnership. MAA's shareholders' equity may include shares of preferred stock, shares of common stock, additional paid-in capital, cumulative earnings, cumulative distributions, noncontrolling interest, 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' preferred capital, limited partners' noncontrolling interest, accumulated other comprehensive income and redeemable common units. Redeemable common units represent the number of outstanding OP Units as of the date of the applicable balance sheet, valued at the greater of the closing market price of MAA's common stock or the aggregate value of the individual partners' capital balances. Each redeemable OP Unit may be redeemed by the holder thereof for either cash equal to the fair market value of one share of common stock of MAA at the time of such redemption or, at the option of MAA, one share of common stock of MAA.

As of June 30, 2015, we owned and operated 254 apartment communities comprising 79,977 apartments located in 14 states principally through the Operating Partnership.

As of June 30, 2015, we had four development communities under construction totaling 806 units, with 115 units completed. Total expected costs for the development projects are $118.8 million, of which $55.1 million has been incurred through June 30, 2015. We expect to complete construction on the first project by the third quarter of 2015, the second project by the fourth quarter of 2015, the third project by the third quarter of 2016, and the fourth project by the second quarter of 2017. Five of our multifamily properties include retail components with approximately 163,000 square feet of gross leasable area. We also have one wholly owned commercial property, which we acquired through our merger with Colonial Properties Trust, or Colonial, with approximately 196,000 square feet of gross leasable area, excluding tenant owned anchor stores, and one partially owned commercial property with approximately 30,000 square feet of gross leasable area.

Reclassifications

In order to present comparative financial statements, certain reclassifications have been made to prior period numbers. In our Form 10-Q for the three and six months ended June 30, 2014, we reported approximately $0.3 million and $0.7 million, respectively, in permits and fees and general maintenance costs in the Other operating expense line of our Condensed Consolidated Statement of Operations. These costs have been reclassified to Building repairs and maintenance for the three and six months ended June 30, 2014, presented in the Condensed Consolidated Statement of Operations included in this Report. In our Form 10-Q for the three and six months ended June 30, 2014, we also reported approximately $8.3 million and $16.4 million, respectively, primarily for cable TV, trash removal, and telephone costs, in the Other operating expense line of our Condensed Consolidated Statement of Operations. These costs have been reclassified to Utilities for the three and six months ended June 30, 2014, presented in the Condensed Consolidated Statement of Operations included in this Report. In our Form 10-K for the year ended December 31, 2014, we reported approximately $36.5 million as Assets held for sale, excluded from Real estate assets, net. These assets have been reclassified to Assets held for use within the applicable line items in the Condensed Consolidated Balance Sheet included in this Report. See further discussion on the held for sale reclassification in Note 12 to these condensed consolidated financial statements. These changes have been made in order to provide better insight into our property operating expenses and balance sheet position.

Basis of Presentation and Principles of Consolidation

The accompanying condensed consolidated financial statements have been prepared by our management in accordance with United States generally accepted accounting principles, or GAAP, and applicable rules and regulations of the Securities and Exchange Commission, or the SEC. The condensed consolidated financial statements of MAA presented herein include the accounts of MAA, the Operating Partnership, and all other subsidiaries in which MAA has a controlling financial interest. MAA owns approximately 95% to 100% of all consolidated subsidiaries. The condensed consolidated financial statements of MAALP presented herein include the accounts of MAALP and all other subsidiaries in which MAALP has a controlling financial interest. MAALP owns, directly or indirectly, 100% of all consolidated subsidiaries. In our opinion, all adjustments necessary for a fair presentation of the condensed consolidated financial statements have been included, and all such adjustments were of a normal recurring nature. All significant intercompany accounts and transactions have been eliminated in consolidation.

We invest in entities which may qualify as variable interest entities, or VIE. A VIE is a legal entity in which the equity investors lack sufficient equity at risk for the entity to finance its activities without additional subordinated financial support or, as a group, the holders of the equity investment at risk lack the power to direct the activities of a legal entity as well as the obligation to absorb its expected losses or the right to receive its expected residual returns. We consolidate all VIEs for which we are the primary beneficiary and use the equity method to account for investments that qualify as VIEs but for which we are not the primary beneficiary. In determining whether we are the primary beneficiary of a VIE, we consider qualitative and quantitative factors, including but not limited to, those activities that most significantly impact the VIE's economic performance and which party controls such activities.

We use the equity method of accounting for our investments in entities for which we exercise significant influence, but do not have the ability to exercise control. These entities are not variable interest entities. The factors considered in determining that we do not have the ability to exercise control include ownership of voting interests and participatory rights of investors.

2. Earnings per Common Share of MAA

Basic earnings per share is computed by dividing net income attributable to common shareholders by the weighted average number of shares outstanding during the period. All outstanding unvested restricted share awards contain rights to non-forfeitable dividends and participate in undistributed earnings with common shareholders and, accordingly, are considered participating securities that are included in the two-class method of computing basic earnings per share. Both the unvested restricted shares and other potentially dilutive common shares, and the related impact to earnings, are considered when calculating earnings per share on a diluted basis with our diluted earnings per share being the more dilutive of the treasury stock or two-class methods. OP Units are included in dilutive earnings per share calculations when they are dilutive to earnings per share. For the three and six months ended June 30, 2015 and 2014, MAA's basic earnings per share is computed using the two-class method, and our diluted earnings per share is computed using the more dilutive of the treasury stock method or two-class method, as presented below:

(dollars and shares in thousands, except per share amounts)	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Shares Outstanding				
Weighted average common shares - basic	75,168	74,948	75,157	74,876
Weighted average partnership units outstanding	— (1)	— (1)	— (1)	— (1)
Effect of dilutive securities	— (2)	— (2)	— (2)	162
Weighted average common shares - diluted	75,168	74,948	75,157	75,038
Calculation of Earnings per Share - basic				
Income from continuing operations	$143,873	$33,391	$208,550	$43,673
Income from continuing operations attributable to noncontrolling interests	(7,574)	(1,773)	(10,984)	(2,332)
Income from continuing operations allocated to unvested restricted shares	(337)	(64)	(446)	(81)
Income from continuing operations available for common shareholders, adjusted	$135,962	$31,554	$197,120	$41,260
Income from discontinued operations	$—	$(5)	$—	$5,427
Income from discontinued operations attributable to noncontrolling interest	—	—	—	(289)
Income from discontinued operations allocated to unvested restricted shares	—	—	—	(10)
Income from discontinued operations available for common shareholders, adjusted	$—	$(5)	$—	$5,128
Weighted average common shares - basic	75,168	74,948	75,157	74,876
Earnings per share - basic	$1.81	$0.42	$2.62	$0.62
Calculation of Earnings per Share - diluted				
Income from continuing operations	$143,873	$33,391	$208,550	$43,673
Income from continuing operations attributable to noncontrolling interests	(7,574) (1)	(1,773) (1)	(10,987) (1)	(2,332) (1)
Income from continuing operations allocated to unvested restricted shares	(337) (2)	(64) (2)	(446) (2)	—
Income from continuing operations available for common shareholders, adjusted	$135,962	$31,554	$197,117	$41,341
Income from discontinued operations	$—	$(5)	$—	$5,427
Income from discontinued operations attributable to noncontrolling interest	—	—	—	(289) (1)
Income from discontinued operations allocated to unvested restricted shares	—	—	—	—
Income from discontinued operations available for common shareholders, adjusted	$—	$(5)	$—	$5,138
Weighted average common shares - diluted	75,168	74,948	75,157	75,038
Earnings per share - diluted	$1.81	$0.42	$2.62	$0.62

(1) For both the three and six months ended June 30, 2015 and 2014, 4.2 million operating partnership units and their related income are not included in the diluted earnings per share calculations as they are not dilutive.

(2) For both the three and six months ended June 30, 2015 and the three months ended June 30, 2014, 0.2 million potentially dilutive securities and their related income are not included in the diluted earnings per share calculations as they are not dilutive.

3. Earnings per OP Unit of MAALP

Basic earnings per OP Unit is computed by dividing net income available for common unitholders by the weighted average number of units outstanding during the period. All outstanding unvested restricted share awards contain rights to non-forfeitable dividends and participate in undistributed earnings with common unitholders and, accordingly, are considered participating securities that are included in the two-class method of computing basic earnings per OP unit. Diluted earnings per OP Unit reflects the potential dilution that could occur if securities or other contracts to issue OP Units were exercised or converted into OP Units. A reconciliation of the numerators and denominators of the basic and diluted earnings per unit computations for the three and six months ended June 30, 2015 and 2014 is presented below:

(dollars and units in thousands, except per unit amounts)	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Units Outstanding				
Weighted average OP Units - basic	79,356	79,156	79,346	79,090
Effect of dilutive securities	— [(1)]	— [(1)]	— [(1)]	162
Weighted average OP Units - diluted	79,356	79,156	79,346	79,252
Calculation of Earnings per Unit - basic				
Income from continuing operations	$143,873	$33,391	$208,550	$43,673
Income from continuing operations allocated to unvested restricted shares	(337)	(64)	(446)	(81)
Income from continuing operations available for common unitholders, adjusted	$143,536	$33,327	$208,104	$43,592
Income from discontinued operations	$—	$(5)	$—	$5,427
Income from discontinued operations allocated to unvested restricted shares	—	—	—	(10)
Income from discontinued operations available for common unitholders, adjusted	$—	$(5)	$—	$5,417
Weighted average OP Units - basic	79,356	79,156	79,346	79,090
Earnings per unit - basic:	$1.81	$0.42	$2.62	$0.62
Calculation of Earnings per Unit - diluted				
Income from continuing operations	$143,873	$33,391	$208,550	$43,673
Income from continuing operations allocated to unvested restricted shares	(337) [(1)]	(64) [(1)]	(446) [(1)]	—
Income from continuing operations available for common unitholders, adjusted	$143,536	$33,327	$208,104	$43,673
Income from discontinued operations	$—	$(5)	$—	$5,427
Income from discontinued operations allocated to unvested restricted shares	—	—	—	—
Income from discontinued operations available for common unitholders, adjusted	$—	$(5)	$—	$5,427
Weighted average OP Units - diluted	79,356	79,156	79,346	79,252

Earnings per unit - diluted:	$1.81	$0.42	$2.62	$0.62

[(1)] For both the three and six months ended June 30, 2015 and the three months ended June 30, 2014, 0.2 million potentially dilutive securities and their related income are not included in the diluted earnings per share calculations as they are not dilutive.

16

4. MAA Equity

Total equity and its components for the six-month periods ended June 30, 2015 and 2014 were as follows (dollars in thousands, except per share and per unit data):

	Mid-America Apartment Communities, Inc. Shareholders Equity					
	Common Stock Amount	Additional Paid-In Capital	Accumulated Distributions in Excess of Net Income	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest	Total Equity
EQUITY BALANCE DECEMBER 31, 2014	$752	$3,619,270	$ (729,086)	$ (412)	$ 161,287	$3,051,811
Net income			197,566		10,984	208,550
Other comprehensive income - derivative instruments (cash flow hedges)				1,364	76	1,440
Issuance and registration of common shares	2	182				184
Shares repurchased and retired	—	(945)				(945)
Exercise of stock options	—	420				420
Shares issued in exchange for units	—	184			(184)	—
Redeemable stock fair market value adjustment			173			173
Adjustment for noncontrolling interest ownership in operating partnership		45			(45)	—
Amortization of unearned compensation		3,167				3,167
Dividends on common stock ($1.54 per share)			(116,066)		—	(116,066)
Dividends on noncontrolling interest units ($1.54 per unit)					(6,449)	(6,449)
EQUITY BALANCE JUNE 30, 2015	$754	$3,622,323	$ (647,413)	$ 952	$ 165,669	$3,142,285

	Mid-America Apartment Communities, Inc. Shareholders Equity					
	Common Stock Amount	Additional Paid-In Capital	Accumulated Distributions in Excess of Net Income	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest	Total Equity
EQUITY BALANCE DECEMBER 31, 2013	$747	$3,599,549	$ (653,593)	$ 108	$ 166,726	$3,113,537
Net income			46,479		2,621	49,100
Other comprehensive loss - derivative instruments (cash flow hedges)				(1,503)	(87)	(1,590)
	2	573				575

Issuance and registration of common shares						
Shares repurchased and retired	—	(336)				(336)
Exercise of stock options	2	9,542				9,544
Shares issued in exchange for units	—	799			(799)	—
Shares issued in exchange for redeemable stock		998				998
Redeemable stock fair market value adjustment			(848)			(848)
Adjustment for noncontrolling interest ownership in operating partnership		51			(51)	—
Amortization of unearned compensation		2,045				2,045
Dividends on common stock ($1.46 per share)			(109,680)		—	(109,680)
Dividends on noncontrolling interest units ($1.46 per unit)					(6,143)	(6,143)
EQUITY BALANCE JUNE 30, 2014	$751	$3,613,221	$ (717,642)	$ (1,395)	$ 162,267	$3,057,202

17

5. MAALP Capital

Total capital and its components for the six-month periods ended June 30, 2015 and 2014 were as follows (dollars in thousands, except per unit data):

	Mid-America Apartments, L.P. Unitholders			
	Limited Partner	General Partner	Accumulated Other Comprehensive Income (Loss)	Total Partnership Capital
CAPITAL BALANCE DECEMBER 31, 2014	$161,310	$2,890,858	$ (376)	$3,051,792
Net income	10,984	197,566		208,550
Other comprehensive income - derivative instruments (cash flow hedges)			1,440	1,440
Issuance of units		184		184
Units repurchased and retired		(945)		(945)
Exercise of unit options		420		420
General partner units issued in exchange for limited partner units	(184)	184		—
Redeemable units fair market value adjustment		173		173
Adjustment for limited partners' capital at redemption value	(45)	45		—
Amortization of unearned compensation		3,167		3,167
Distributions ($1.54 per unit)	(6,449)	(116,066)		(122,515)
CAPITAL BALANCE JUNE 30, 2015	$165,616	$2,975,586	$ 1,064	$3,142,266

	Mid-America Apartments, L.P. Unitholders			
	Limited Partner	General Partner	Accumulated Other Comprehensive Income (Loss)	Total Partnership Capital
CAPITAL BALANCE DECEMBER 31, 2013	$166,746	$2,946,598	$ 174	$3,113,518
Net income	2,621	46,479		49,100
Other comprehensive loss - derivative instruments (cash flow hedges)			(1,590)	(1,590)
Issuance of units		575		575
Units repurchased and retired		(336)		(336)
Exercise of unit options		9,544		9,544
General partner units issued in exchange for limited partner units	(799)	799		—
Units issued in exchange for redeemable units		998		998
Redeemable units fair market value adjustment		(848)		(848)
Adjustment for limited partners capital at redemption value	(79)	79		—
Amortization of unearned compensation		2,045		2,045
Distributions ($1.46 per unit)	(6,143)	(109,680)		(115,823)
CAPITAL BALANCE JUNE 30, 2014	$162,346	$2,896,253	$ (1,416)	$3,057,183

6. Borrowings

The weighted average interest rate at June 30, 2015 for the $3.44 billion of debt outstanding was 3.6%, compared to the weighted average interest rate of 3.7% on $3.52 billion of debt outstanding at December 31, 2014. Our debt consists of an unsecured credit facility, unsecured term loans, senior unsecured notes, a secured credit facility with Fannie Mae, and secured property mortgages. We utilize fixed rate borrowings, interest rate swaps, and interest rate caps to manage our current and future interest rate risk. More details on our borrowings can be found in the schedules presented later in this Report.

At June 30, 2015, we had $105.8 million (after considering the impact of interest rate swap and cap agreements in effect) of secured variable rate debt outstanding at an average interest rate of 0.7% and $176.6 million of capped secured variable rate debt at an average interest rate of 0.9%. The interest rate on all other secured debt, totaling $1.1 billion, was hedged or fixed at an average interest rate of 4.0%. Additionally, we had $1.9 billion of senior unsecured notes and term loans fixed at an average interest rate of 4.0% and a $500 million variable rate credit facility with an average interest rate of 1.3% with $159.0 million borrowed at June 30, 2015.

Unsecured Credit Facility

We maintain a $500.0 million unsecured credit facility with fourteen banks led by KeyBank National Association (the KeyBank Facility). The KeyBank Facility includes an expansion option up to $800.0 million. The KeyBank Facility bears an interest rate of LIBOR plus a spread of 0.90% to 1.70% based on an investment grade pricing grid and is currently bearing interest at 1.28%. This credit line expires in August 2017 with two six-month extension options. At June 30, 2015, we had $496.2 million total capacity under the KeyBank Facility with $159.0 million borrowed. Approximately $3.8 million of the KeyBank Facility is used to support letters of credit.

Unsecured Term Loans

We also have three term loans, one each with KeyBank, Wells Fargo, and US Bank. The KeyBank term loan has a balance of $150 million, matures in 2017, and has a variable interest rate of LIBOR plus a spread of 1.10% to 2.05% based on our credit ratings. The Wells Fargo term loan has a balance of $250 million and matures in 2018. The US Bank term loan has a balance of $150 million and matures in 2020. Both the Wells Fargo and US Bank term loans have variable interest rates of LIBOR plus a spread of 0.90% to 1.90% based on our credit ratings. As of June 30, 2015, the KeyBank term loan was bearing interest at a rate of LIBOR plus 1.35%. As of June 30, 2015, the Wells Fargo and US Bank term loans were bearing interest at a rate of LIBOR plus 1.15%.

Senior Unsecured Notes

We have also issued both public and private unsecured senior notes. As of June 30, 2015, we have approximately $1.0 billion of publicly issued bonds and $310.0 million of private placement notes. These notes are longer term in nature and usually mature within five to 12 years.

Secured Credit Facility

We also maintain a total of $360.0 million of secured credit facilities with Prudential Mortgage Capital, which are credit enhanced by Fannie Mae, or the Fannie Mae Facilities. The Fannie Mae Facilities provide for both fixed and variable rate borrowings and have Fannie Mae rate tranches with maturities from 2015 through 2018. The interest rate on the variable portion renews every 90 days and is based on the Fannie Mae discount mortgage backed security rate on the date of renewal, which, for us, has historically approximated three-month LIBOR less an average of 0.17% over the life of the Fannie Mae Facilities, plus a fee of 0.62%. Borrowings under the Fannie Mae Facilities totaled $320.8 million at June 30, 2015, consisting of $50.0 million under a fixed portion at a rate of 4.7%, and the remaining $270.8 million under the variable rate portion of the Fannie Mae facilities at an average rate of 0.8%. On February 17, 2015, we paid off $91.1 million related to a group of mortgages associated with the tax-free portion of the Fannie Mae Facilities. As part of this transaction, we recorded a $3.1 million loss on debt extinguishment, primarily due to the write-off of unamortized financing costs associated with these mortgages.

Each of our credit facilities is subject to various covenants and conditions on usage, and the secured facilities are subject to periodic re-evaluation of collateral. If we were to fail to satisfy a condition to borrowing, the available credit under one or more of the facilities could not be drawn, which could adversely affect our liquidity. In the event of a reduction in real estate values, the amount of credit could be reduced. Moreover, if we were to fail to make a payment or violate a covenant under a credit facility, after applicable cure periods, one or more of our lenders could declare a default, accelerate the due date for repayment of all amounts outstanding and/or foreclose on properties securing such facilities. A default on an obligation to repay outstanding debt could also create a cross default on a separate piece of debt, whereby one or more of our lenders could accelerate the due date for repayment of all amounts outstanding and/or foreclose on properties securing the related facilities. Any such event could have a material adverse effect on the Company. We believe that we were in compliance with these covenants and conditions on usage at June 30, 2015.

Secured Property Mortgages

At June 30, 2015, we had $1.1 billion of fixed rate conventional property mortgages with an average interest rate of 4.0% and an average maturity in 2019 as well as an $11.6 million variable rate mortgage with an embedded cap rate of 7.0% at an interest rate of 3.1% with a maturity in 2015.

On January 30, 2015, we paid off a $15.2 million mortgage associated with the Farmington Village apartment community. We recorded a $0.2 million loss on debt extinguishment due to paying off the mortgage prior to maturity.

On June 1, 2015, we paid off a $25.5 million mortgage associated with the Colonial Grand at Wilmington apartment community. The payoff was a scheduled maturity of the loan.

On June 15, 2015, we paid off a $10.1 million mortgage associated with the Reserve at Woodwind Lakes apartment community. The payoff was a scheduled maturity of the loan.

Guarantees

Of the debt mentioned above, MAA fully and unconditionally guarantees the following debt incurred by MAALP:

- $360.0 million of the Fannie Mae Facilities, of which $320.8 million has been borrowed as of June 30, 2015;
- $500.0 million KeyBank credit facility, of which $159.0 million has been borrowed as of June 30, 2015;
- $23.5 million of property mortgages, all of which has been borrowed as of June 30, 2015;
- $310.0 million of senior unsecured notes, all of which has been borrowed as of June 30, 2015; and
- $550.0 million of term loans, all of which has been borrowed as of June 30, 2015.

Borrowings Overview

The following table summarizes our outstanding debt structure as of June 30, 2015 (dollars in thousands):

	Borrowed Balance	Effective Rate		Average Contract Maturity
Fixed Rate Secured Debt				
Individual property mortgages	$1,081,373	4.0	%	6/10/2019
FNMA credit facilities	50,000	4.7	%	3/31/2017
Total fixed rate secured debt	$1,131,373	4.0	%	5/6/2019
Variable Rate Secured Debt (1)				
FNMA credit facilities	$270,785	0.7	%	2/18/2017
Freddie Mac mortgages	11,635	3.1	%	8/15/2015
Total variable rate secured debt	$282,420	0.8	%	1/26/2017
Total Secured Debt	$1,413,793	3.4	%	11/21/2018
Unsecured Debt				
Variable rate credit facility	$159,000	1.3	%	8/7/2017
Term loans fixed with swaps	$550,000	3.1	%	11/10/2017
Fixed rate senior bonds	1,319,451	4.5	%	12/3/2021
Total Unsecured Debt	$2,028,451	3.8	%	6/25/2020
Total Outstanding Debt	$3,442,244	3.6	%	8/12/2019

(1) Includes capped balances.

7. Derivatives and Hedging Activities

Risk Management Objective of Using Derivatives

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

Cash Flow Hedges of Interest Rate Risk

Our objectives in using interest rate derivatives are to add stability to interest expense and to manage our exposure to interest rate movements. To accomplish these objectives, we use interest rate swaps and interest rate caps as part of our interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable amounts from a counterparty in exchange for us making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. Interest rate caps designated as cash flow hedges involve the receipt of variable amounts from a counterparty if interest rates rise above the strike rate on the contract in exchange for an up-front premium.

The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in accumulated other comprehensive income and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. During the three and six months ended June 30, 2015 and 2014, such derivatives were used to hedge the variable cash flows associated with existing variable-rate debt and forecasted issuances of fixed-rate debt. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings.

During the three months ended June 30, 2015 and 2014, we recorded ineffectiveness of $12,000 (increase to interest expense) and $59,000 (increase to interest expense), respectively, and during the six months ended June 30, 2015 and 2014, we recorded ineffectiveness of $73,000 (increase to interest expense) and $63,000 (increase to interest expense), respectively, mainly attributable to a mismatch in the underlying indices of the derivatives and the hedged interest payments made on our variable-rate debt and due to the designation of acquired interest rate swaps with a non-zero fair value at inception.

Amounts reported in accumulated other comprehensive income related to derivatives designated as qualifying cash flow hedges will be reclassified to interest expense as interest payments are made on our variable-rate or fixed-rate debt. During the next 12 months, we estimate that an additional $4.7 million will be reclassified to earnings as an increase to interest expense, which primarily represents the difference between our fixed interest rate swap payments and the projected variable interest rate swap payments.

As of June 30, 2015, we had the following outstanding interest rate derivatives that were designated as cash flow hedges of interest rate risk:

Interest Rate Derivative	Number of Instruments	Notional
Interest Rate Caps	6	$165,000,000
Interest Rate Swaps	8	$550,000,000

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

The table below presents the fair value of our derivative financial instruments as well as their classification on the Condensed Consolidated Balance Sheet as of June 30, 2015 and December 31, 2014.

Fair Values of Derivative Instruments on the Condensed Consolidated Balance Sheets as of June 30, 2015 and December 31, 2014 (dollars in thousands)

	Asset Derivatives			Liability Derivatives		
		June 30, 2015	December 31, 2014		June 30, 2015	December 31, 2014
Derivatives designated as hedging instruments	Balance Sheet Location	Fair Value	Fair Value	Balance Sheet Location	Fair Value	Fair Value
Interest rate contracts	Other assets	$2,241	$72	Fair market value of interest rate swaps	$13,071	$13,392
Total derivatives designated as hedging instruments		$2,241	$72		$13,071	$13,392
Derivatives not designated as hedging instruments						
Interest rate contracts	Other assets	$—	$6		$—	$—
Total derivatives not designated as hedging instruments		$—	$6		$—	$—

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

The table below presents the effect of our derivative financial instruments on the Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2015 and 2014.

Effect of Derivative Instruments on the Condensed Consolidated Statements of Operations for the Three and six months ended June 30, 2015 and 2014 (dollars in thousands)

Derivatives in Cash Flow Hedging Relationships	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)		Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)		Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Ga Recognized in Income on Derivative (In Portion and A Excluded from Effectiveness	
Three months ended June 30,	2015	2014		2015	2014		2015	2014
Interest rate contracts	$1,804	$(7,403)	Interest expense	$(1,791)	$(3,085)	Interest expense	$(12)	$(59)
Total derivatives in cash flow hedging relationships	$1,804	$(7,403)		$(1,791)	$(3,085)		$(12)	$(59)
Six months ended June 30,								
Interest rate contracts	$(2,543)	$(8,400)	Interest expense	$(3,983)	$(6,810)	Interest expense	$(73)	$(63)
Total derivatives in cash flow hedging relationships	$(2,543)	$(8,400)		$(3,983)	$(6,810)		$(73)	$(63)
Derivatives Not Designated as Hedging Instruments								
Three months ended June 30,						Location of Gain or (Loss) Recognized in Income	2015	2014
Interest rate contracts						Interest expense	$—	$(59)
Total							$—	$(59)
Six months ended June 30,								
Interest rate contracts						Interest expense	$(3)	$(128)

Total	$(3)	$(128)

Credit-Risk-Related Contingent Features

As of June 30, 2015, derivatives that were in a net liability position and subject to credit-risk-related contingent features had a termination value of $13.6 million, which includes accrued interest but excludes any adjustment for nonperformance risk. These derivatives had a fair value, gross of asset positions, of $13.1 million at June 30, 2015.

Certain of our derivative contracts contain a provision where we could be declared in default on our derivative obligations if repayment of the underlying indebtedness is accelerated by the lender due to our default on the indebtedness. As of June 30, 2015, we had not breached the provisions of these agreements. If we had breached these provisions, we could have been required to settle our obligations under the agreements at the termination value of $13.6 million.

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

24

The table below presents a gross presentation, the effects of offsetting, and a net presentation of our derivatives as of June 30, 2015 and December 31, 2014. The net amounts of derivative assets or liabilities can be reconciled to the Tabular Disclosure of Fair Values of Derivative Instruments above, which also provides the location that derivative assets and liabilities are presented on the Condensed Consolidated Balance Sheets (dollars in thousands):

Offsetting of Derivative Assets
As of June 30, 2015

				Gross Amounts Not Offset in the Statement of Financial Position		
	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Assets presented in the Statement of Financial Position	Financial Instruments	Cash Collateral Received	Net Amount
Derivatives	$2,241	$—	$2,241	$(350)	$—	$1,891

Offsetting of Derivative Liabilities
As of June 30, 2015

				Gross Amounts Not Offset in the Statement of Financial Position
	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Liabilities presented in the Statement of Financial Position	Financial Instruments