MID AMERICA APARTMENT COMMUNITIES INC.
Form 10-K
February 21, 2019

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

FORM 10-K
(Mark One)

ý	ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the fiscal year ended December 31, 2018

OR

o	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the transition period from __________ to ___________

Commission File Number 001-12762 (Mid-America Apartment Communities, Inc.)
Commission File Number 333-190028-01 (Mid-America Apartments, L.P.)

MID-AMERICA APARTMENT COMMUNITIES, INC.
MID-AMERICA APARTMENTS, L.P.
(Exact name of registrant as specified in its charter)

Tennessee (Mid-America Apartment Communities, Inc.)	62-1543819
Tennessee (Mid-America Apartments, L.P.)	62-1543816
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
6815 Poplar Avenue, Suite 500,	

Germantown, Tennessee, 38138
(Address of principal executive offices) (Zip Code)
Registrant's telephone number, including area code: (901) 682-6600

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 (Mid-America Apartment Communities, Inc.)	New York Stock Exchange
8.50% Series I Cumulative Redeemable Preferred Stock, $.01 par value per share (Mid-America	New York Stock Exchange

Apartment Communities, Inc.)

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Mid-America Apartment Communities, Inc.	Yes ý No o
Mid-America Apartments, L.P.	Yes o No ý

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Mid-America Apartment Communities,	Yes o No ý

Inc.

Mid-America Apartments, L.P. Yes o No ý

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Mid-America Apartment Communities, Inc.	Yes ý No o
Mid-America Apartments, L.P.	Yes ý No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) 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. o

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

Mid-America Apartment Communities, Inc.

Large accelerated filer ý	Accelerated filer o	Non-accelerated filer o	Smaller reporting company o	Emerging growth company o

Mid-America Apartments, L.P.

Large accelerated filer o	Accelerated filer o	Non-accelerated filer ý	Smaller reporting company o	Emerging growth company o

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

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

Mid-America Apartment Communities, Inc.
Mid-America Apartments, Yes No ý
L.P.

The aggregate market value of the 80,246,503 shares of common stock of Mid-America Apartment Communities, Inc. held by non-affiliates was approximately $8.1 billion based on the closing price of $100.67 as reported on the New York Stock Exchange on June 29, 2018. This calculation excludes shares of common stock held by the registrant's officers and directors and each person known by the registrant to beneficially own more than 5% of the registrant's outstanding shares, as such persons may be deemed to be affiliates. This determination of affiliate status should not be deemed conclusive for any other purpose. As of February 18, 2019 there were 113,888,340 shares of Mid-America Apartment Communities, Inc. common stock outstanding.

There is no public trading market for the partnership units of Mid-America Apartments, L.P. As a result, an aggregate market value of the partnership units of Mid-America Apartments, L.P. cannot be determined.

Documents Incorporated by Reference

Portions of the proxy statement for the annual shareholders meeting of Mid-America Apartment Communities, Inc. to be held on May 21, 2019 are incorporated by reference into Part III of this report. We expect to file our proxy statement within 120 days after December 31, 2018.

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

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Explanatory Note

This report combines the Annual Reports on Form 10-K for the year ended December 31, 2018 of Mid-America Apartment Communities, Inc., a Tennessee corporation, and Mid-America Apartments, L.P., a Tennessee limited partnership, of which Mid-America Apartment Communities, Inc. is the sole general partner. Mid-America Apartment Communities, Inc. and its 96.5% owned subsidiary, Mid-America Apartments, L.P., are both required to file annual reports under the Securities Exchange Act of 1934, as amended.

Unless the context otherwise requires, all references in this Annual Report on Form 10-K to "MAA" refer only to Mid-America Apartment Communities, Inc., and not any of its consolidated subsidiaries. Unless the context otherwise requires, all references in this report to "we," "us," "our," or the "Company" refer collectively to Mid-America Apartment Communities, Inc., together with its consolidated subsidiaries, including Mid-America Apartments, L.P. Unless the context otherwise requires, all references in this report to the "Operating Partnership" or "MAALP" refer to Mid-America Apartments, L.P. together with its consolidated subsidiaries. "Common stock" refers to the common stock of MAA, "preferred stock" refers to the preferred stock of MAA, and "shareholders" refers to the holders of shares of MAA’s common stock or preferred stock, as applicable. The common units of limited partnership interest in the Operating Partnership are referred to as "OP Units" and the holders of the OP Units are referred to as "common unitholders".

As of December 31, 2018, MAA owned 113,844,267 OP Units (96.5% of the total number of OP Units). MAA conducts substantially all of its business and holds substantially all of its assets, directly or indirectly, 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 Annual Reports on Form 10-K of MAA and the Operating Partnership, including the notes to the consolidated financial statements, into this report results in the following benefits:

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

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

The presentation of MAA's shareholders' equity and the Operating Partnership's capital are the principal areas of difference between the consolidated financial statements of MAA and those of the Operating Partnership. MAA's shareholders' equity may include shares of preferred stock, shares of common stock, additional paid-in capital, cumulative earnings, cumulative distributions, noncontrolling interest, treasury shares, accumulated other comprehensive income and redeemable common stock. The Operating Partnership's capital may include common capital and preferred capital of the general partner (MAA), limited partners' common capital and preferred capital, noncontrolling interest, accumulated other comprehensive income and redeemable common units. Holders of OP Units (other than MAA and its subsidiaries) may require the Operating Partnership to redeem their OP Units from time to time, in which case the Operating Partnership may, at its option, pay the redemption price either in cash (in an amount per OP Unit equal, in general, to the average closing price of MAA's common stock on the New York Stock Exchange, or NYSE, over a specified period prior to the redemption date) or by delivering one share of MAA's common stock (subject to adjustment under specified circumstances) for each OP Unit so redeemed.

In order to highlight the material differences between MAA and the Operating Partnership, this Annual Report on Form 10-K includes sections that separately present and discuss areas that are materially different between MAA and the Operating Partnership, including:

- the selected financial data in Item 6 of this report;
- the consolidated financial statements in Item 8 of this report;
- certain accompanying notes to the consolidated financial statements, including Note 3 - Earnings per Common Share of MAA and Note 4 - Earnings per OP Unit of MAALP; Note 9 - Shareholders' Equity of MAA and Note 10 - Partners' Capital of MAALP; and Note 16 - Selected Quarterly Financial Information of MAA (Unaudited) and Note 17 - Selected Quarterly Financial Information of MAALP (Unaudited);
- the controls and procedures in Item 9A of this report; and
- the certifications included as Exhibits 31 and 32 to this report.

In the sections that combine disclosures 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, in that we operate the business through the Operating Partnership.

PART I

Risks Associated with Forward Looking Statements

We consider 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, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, 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 forecasted operating performance and results, 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 forward-looking statements involve known and unknown risks, uncertainties and other factors, as described below, which may cause our 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. 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 actual results, performance or achievements to differ materially from those expressed or implied 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;
- exposure, as a multifamily focused REIT, to risks inherent in investments in a single industry and sector;
-

adverse changes in real estate markets, including, but not limited to, the extent of future demand for multifamily units in our significant markets, barriers of entry into new markets which we may seek to enter in the future, limitations on our ability to increase rental rates, competition, our ability to identify and consummate attractive acquisitions or development projects on favorable terms, our ability to consummate any planned dispositions in a timely manner on acceptable terms, and our ability to reinvest sale proceeds in a manner that generates favorable returns;

- failure of new acquisitions to achieve anticipated results or be efficiently integrated;
- failure of development communities to be completed, if at all, within budget and on a timely basis or to lease-up as anticipated;
- unexpected capital needs;
- changes in operating costs, including real estate taxes, utilities and insurance costs;
- losses from catastrophes in excess of our insurance coverage;
- ability to obtain financing at favorable rates, if at all, and refinance existing debt as it matures;

- level and volatility of interest or capitalization rates or capital market conditions;
- loss of hedge accounting treatment for interest rate swaps;
- the continuation of the good credit of our interest rate swap providers;
- price volatility, dislocations and liquidity disruptions in the financial markets and the resulting impact on financing;
- the effect of any rating agency actions on the cost and availability of new debt financing;
- significant decline in market value of real estate serving as collateral for mortgage obligations;
- 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;
- our ability to continue to satisfy complex rules in order to maintain our status as a REIT for federal income tax purposes, the ability of the Operating Partnership to satisfy the rules to maintain its status as a partnership for federal income tax purposes, the ability of our taxable REIT subsidiaries to maintain their status as such for federal income tax purposes, and our ability and the ability of our subsidiaries to operate effectively within the limitations imposed by these rules;
- inability to attract and retain qualified personnel;
- cyber liability or potential liability for breaches of our privacy or information security systems;
- potential liability for environmental contamination;
- adverse legislative or regulatory tax changes;
- legal proceedings relating to various issues, which, among other things, could result in a class action lawsuit;
- compliance costs associated with laws requiring access for disabled persons; and
- other risks identified in this Annual Report on Form 10-K including under the caption "Item 1A. Risk Factors" and, from time to time, in other reports we file with the Securities and Exchange Commission, or the SEC, or in other documents that we publicly disseminate.

New factors may also emerge from time to time that could have a material adverse effect on our business. Except as required by law, we undertake no obligation to publicly update or revise forward-looking statements contained in this Annual Report on Form 10-K to reflect events, circumstances or changes in expectations after the date on which this Annual Report on Form 10-K is filed.

Item 1. Business.

Overview

MAA is a multifamily focused, self-administered and self-managed real estate investment trust, or REIT. We own, operate, acquire and selectively develop apartment communities located in the Southeast, Southwest and Mid-Atlantic regions of the United States. As of December 31, 2018, we maintained full or partial ownership of apartment communities and commercial properties across 17 states and the District of Columbia, summarized as follows:

Multifamily	Communities	Units
Consolidated	303	100,595
Unconsolidated	1	269
Total	304	100,864

Commercial	Properties	Sq. Ft. [1]
Consolidated	4	260,000

[1] Excludes commercial space located at our multifamily apartment communities, which totals approximately 615,000 square feet of gross leasable space.

Our business is conducted principally through the Operating Partnership. MAA is the sole general partner of the Operating Partnership, holding 113,844,267 OP Units, comprising a 96.5% partnership interest in the Operating Partnership as of December 31, 2018. MAA and MAALP were formed in Tennessee in 1993. As of December 31, 2018, we had 2,508 full-time employees and 44 part-time employees.

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 dividends and distributions through all parts of the real estate investment cycle, and to create 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;
- manage real estate investment cycles by taking an opportunistic approach to buying, selling, developing and renovating apartment communities;
- diversify investment capital across markets in which we operate to achieve a balanced portfolio and minimize volatile operating performance; and
- actively manage our capital structure to enhance predictability of earnings to fund our dividends and distributions.

Operations

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

- providing management information and improved customer services through technology innovations;
- utilizing systems to enhance property managers' ability to optimize revenue by adjusting rental rates in response to local market conditions and individual unit amenities;
- implementing programs to control expenses through investment in cost-saving initiatives;
- analyzing individual asset productivity performances to identify best practices and improvement areas;
- 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;
- 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; and
- maintaining a hands-on management style and "flat" organizational structure that emphasizes property level decision making coupled with asset management and senior management's monitoring.

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 management, along with various asset management functions, are proactively involved in supporting and reviewing property management through extensive reporting processes and frequent on-site visits. To maximize the amount of information shared between senior 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 and 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.

Investment in technology continues to drive operating efficiencies in our business and help us to better meet the changing needs of our residents. Our residents have the ability to conduct business with us 24 hours a day, 7 days a week and complete online leasing applications and renewals via the use of our web-based resident Internet portal. Interacting with our residents through such technology has allowed us to improve resident satisfaction ratings and increase the efficiency of our operating teams.

Acquisitions

One of our growth strategies is to acquire apartment communities that are located in various markets throughout the Southeast, Southwest and Mid-Atlantic regions of the United States. Acquisitions, along with dispositions, help us achieve and maintain our desired product mix, geographic diversification and asset allocation. Portfolio growth allows for maximizing the efficiency of the existing management and overhead structure. We have extensive experience in the acquisition of apartment communities. We will continue to evaluate opportunities that arise, and we will utilize this strategy to increase our number of apartment communities in strong and growing markets.

We acquired the following properties during the year ended December 31, 2018:

Multifamily Acquisition	Market	Units	Closing Date
Sync 36	Denver, CO	374	April 26, 2018

Commercial Acquisition	Market	Sq Ft	Closing Date
Hue Retail[1]	Raleigh, NC	7,500	August 1, 2018

Land Acquisition	Market	Acres	Closing Date
Westminster	Denver, CO	10	October 1, 2018
Long Point Road	Houston, TX	9	November 1, 2018

(1) We acquired the ground floor retail portion of one of our existing multifamily apartment communities.

Dispositions

We sell apartment communities and other assets that no longer meet our long-term strategy or when market conditions are favorable, and we redeploy the proceeds from those sales to acquire, develop and redevelop additional apartment communities and rebalance our portfolio across or within geographic regions. Dispositions also allow us to realize a portion of the value created through our investments and provide additional liquidity. We are then able to redeploy the net proceeds from our dispositions in lieu of raising additional capital. In deciding to sell an apartment community, we consider current market conditions and generally solicit competing bids from unrelated parties for these individual properties, considering the sales price and other key terms of each proposal. We also consider portfolio dispositions when such a structure is useful to maximize proceeds and efficiency of execution. During the year ended December 31, 2018, we disposed of five land parcels totaling approximately 76 acres.

Development

As another part of our growth strategy, we invest in a limited number of development projects. Development activities may be conducted through wholly-owned affiliated companies or through joint ventures with unaffiliated parties. Typically, fixed price construction contracts are signed with unrelated parties to minimize construction risk. We typically manage the leasing portion of the project as units become available for lease. We may also engage in limited expansion development opportunities on existing communities in which we typically serve as the developer. While we seek opportunistic new development investments offering attractive long-term investment returns, we intend to maintain a total development commitment that we consider modest in relation to our total balance sheet and investment portfolio. During the year ended December 31, 2018, we incurred $57.1 million in development costs and completed 3 development projects.

The following multifamily projects were under development as of December 31, 2018 (dollars in thousands):

Project:	Market	Total Units	Units Completed	Cost to Date	Budgeted Cost	Estimated Cost Per Unit	Expected Completion
Post Parkside at Wade III	Raleigh, NC	150	—	$7,235	$25,000	$ 167	4th Quarter 2019
Post Sierra at Frisco Bridges II	Dallas, TX	348	—	12,013	69,000	198	3rd Quarter 2020
Sync 36 II	Denver, CO	79	—	11,685	24,500	310	4th Quarter 2019
		577	—	$30,933	$118,500		

Redevelopment

We focus on both interior unit upgrades and exterior amenities above and beyond routine capital upkeep on existing apartment communities across our portfolio that we believe have the ability to support additional rent growth. During the year ended December 31, 2018, we renovated 8,155 units at an average cost of $6,138 per unit, achieving average rental rate increases of 10.5% above the normal market rate for similar but non-renovated units.

Capital Structure

We use a combination of debt and equity sources to fund our business objectives. We maintain a capital structure, focused on maintaining access, flexibility and low costs, that we believe allows us to proactively source potential investment opportunities in the marketplace. We structure our debt maturities to avoid disproportionate exposure in any given year. Our primary debt financing strategy is to access the unsecured debt markets to provide our debt capital needs, but we also maintain a limited amount of secured debt and maintain our access to both the secured and unsecured debt markets for maximum flexibility. We also believe that we have significant access to the equity capital markets.

As of December 31, 2018, 28.6% of our total market capitalization consisted of debt borrowings, including 25.6% under unsecured credit facilities and unsecured senior notes and 3.0% under secured borrowings. We currently intend to target our total debt, net of cash held, to a range of approximately 32% to 38% 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. We may issue new equity to maintain our debt within the target range. Covenants for our unsecured senior notes limit our total debt to 60% or less of our adjusted total assets (as defined in the covenants for the bonds issued by MAALP). As of December 31, 2018, our total debt was approximately 32.6% of our adjusted total assets. We continuously review opportunities for lowering our cost of capital. We plan to continue using unsecured debt in order to take advantage of the lower cost of capital and flexibility provided by these markets. We will evaluate opportunities to repurchase shares when we believe that our share price is significantly 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 focus on improving the net present value of our investments by generating cash flows from our portfolio of assets 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 over the life of the investments.

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. Competition for new residents is generally intense across all of our markets. Some competing apartment communities offer features that our apartment communities do not have. Competing apartment communities can use concessions or lower rents to obtain temporary competitive advantages. Also, some competing apartment communities are larger or newer than our apartment communities. The competitive position of each apartment community is different depending upon many factors including sub-market supply and demand. In addition, other real estate investors compete with us to acquire existing properties and to develop new properties. These competitors include insurance companies, pension and investment funds, public and private real estate companies, investment companies and other public and private apartment REITs, some of which may have greater resources or lower capital costs than we do.

We believe, however, that we are generally well-positioned to compete effectively for residents and investments. We believe our competitive advantages include:

- a fully integrated organization with property management, development, redevelopment, acquisition, marketing, sales and financing expertise;
- scalable operating and support systems, which include automated systems to meet the changing technological needs of our residents;
- access to a wide variety of debt and equity capital sources;
- geographic diversification with a presence in 38 defined Metropolitan Statistical Areas across the Southeast, Southwest and Mid-Atlantic regions of the United States; and
- significant presence in many of our major markets that allows us to be a local operating expert.

Moving forward, we plan to continue to optimize lease expiration management, improve expense control, increase resident retention efforts and align employee incentive plans with our performance. We also plan to continue to make capital improvements to both our apartment communities and individual units on a regular basis in order to maintain a competitive position in each individual market. We believe this plan of operation, coupled with the portfolio's strengths in targeting residents across a geographically diverse platform, should position us for continued operational upside.

Environmental Matters

As a part of our standard apartment community acquisition and development processes, we generally obtain environmental studies of the sites from outside environmental engineering firms. The purpose of these studies is to identify potential sources of contamination at the site and to assess the status of environmental regulatory compliance. These studies generally include historical reviews of the site, reviews of certain public records, preliminary investigations of the site and surrounding properties, inspection for the presence of asbestos, poly-chlorinated biphenyls 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, may be performed to investigate potential sources of contamination. These studies must be satisfactorily completed before we take ownership of an acquisition or development property; however, no assurance can be given that the studies or additional documents reviewed identify all significant environmental risks. See "Risk Factors - Risks Relating to Our Real Estate Investments and Our Operations - Environmental problems are possible and can be costly."

The environmental studies we received on properties that we have acquired have not revealed any material environmental liabilities. Should any potential environmental risks or conditions be discovered during our due diligence process, the potential costs of remediation will be assessed carefully and factored into the cost of acquisition, assuming the identified risks and factors are deemed to be manageable and within reason. We are not aware of any existing conditions that we believe would be considered a material environmental liability. Nevertheless, it is possible that the studies do not reveal all environmental risks 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.

Merger with Post Properties

We completed our merger with Post Properties, Inc., or Post Properties, on December 1, 2016. Accordingly, the consolidated net assets and results of operations of Post Properties are included in our consolidated financial statements from and after the merger closing date.

Qualification as a Real Estate Investment Trust

MAA has 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, MAA 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 gains) to our shareholders annually. If MAA maintains its qualification as a REIT, MAA generally will not be subject to U.S. federal income taxes at the corporate level on its net income to the extent it distributes such net income to its shareholders annually. Even if MAA continues to qualify as a REIT, it will continue to be subject to certain federal, state and local taxes on its income and its property. In 2018, MAA paid total distributions of $3.69 per share of common stock to its shareholders, which was above the 90% REIT distribution requirement and was in excess of REIT taxable income.

Recent Developments

In February 2019, we closed on the disposition of a 0.4 acre land parcel located in the Atlanta, Georgia market, resulting in a net gain of $9.0 million on the sale of non-depreciable real estate assets recognized in the first quarter of 2019. The gain on sale of non-depreciable real estate assets was not reflected in our initial earnings guidance for the first quarter of 2019 or the full year of 2019. We will review our 2019 earnings guidance in our earnings release and conference call discussing results for the quarter ending March 31, 2019.

In February 2019, we entered into a $191.3 million fixed rate secured property mortgage with a fixed rate of 4.43%, maturing in February 2049.

Website Access to Our Reports

MAA and the Operating Partnership file combined periodic reports with the SEC. Our Annual Reports on Form 10-K, along with our Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to those reports, are available on our website at https://www.maac.com as soon as reasonably practicable after such material is electronically filed with, or furnished to, the SEC. 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 Annual Report on Form 10-K. All of the aforementioned materials may also be obtained free of charge by contacting our Investor Relations Department, 6815 Poplar Avenue, Suite 500, Germantown, TN 38138.

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 impact our business operations. If any of these risks occur, our business prospects, financial condition or results of operations could suffer, the market price of our capital stock and the trading price of our debt securities could decline and you could lose all or part of your investment in our capital stock or debt securities.

Risks Related to Our Real Estate Investments and Our Operations

Unfavorable market and economic conditions could adversely affect occupancy levels, rental revenues and the value of our properties.

Unfavorable market conditions in the areas in which we operate and unfavorable economic conditions may significantly affect our occupancy levels, our rental rates and collections, the value of the properties and our ability to acquire or dispose of apartment communities on economically favorable terms. Our ability to lease our apartment communities at favorable rates is adversely affected by the increase in supply in the multifamily and other rental markets and is dependent upon the overall level in the economy, which is adversely affected by, among other things, job losses and unemployment levels, personal debt levels, a downturn in the housing market, stock market volatility and uncertainty about the future. Some of our major expenses generally do not decline when related rents decline. We would expect that declines in our occupancy levels, rental revenues and/or the values of our apartment communities would cause us to have less cash available to make payments on our debt and to make distributions, which could adversely affect our financial condition or the market value of our securities. Factors that may affect our occupancy levels, our rental revenues, and/or the value of our apartment communities include the following, among others:

- downturns in global, national, regional and local economic conditions, particularly increases in unemployment;
- declines in mortgage interest rates and home pricing, making alternative housing more affordable;
- government or builder incentives with respect to home ownership, making alternative housing options more attractive;
- local real estate market conditions, including oversupply of apartments or other housing available for rent, or a reduction in demand for apartments in the area;
- declines in the financial condition of our residents, which may make it more difficult for us to collect rents from some residents;
- declines in market rental rates;
- declines in household formation; and
- increases in operating costs, if these costs cannot be passed through to our residents.

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

Our ability to make payments on our debt and to make distributions depends on our ability to generate cash flow in excess of operating costs and capital expenditure requirements and/or to have access to the markets for debt and equity financing. Our funds from operations 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 apartments or oversupply of available apartments in our markets, which might adversely affect occupancy or rental rates and/or require rent concessions in order to lease apartments;

- conversion of condominiums and single family houses to rental use or the increase in the number of condominiums and single family homes available for sale;
- weakness in the overall economy, which lowers job growth and the associated demand for apartment housing;
- increases in operating costs (including real estate taxes, utilities and insurance premiums) due to inflation and other factors, which may not be offset by increased rental rates;
- inability to initially, or subsequently after lease terminations, rent apartments on favorable economic terms;
- failure of development communities to be completed, if at all, within budget and on a timely basis or to lease-up as anticipated;
- 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 Fannie Mae, 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 have relied on external funding sources to fully fund the payment of distributions to shareholders and our capital investment program, including our existing property 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 make distributions 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 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 are dependent on a concentration of our investments in a single asset class, making our results of operations more vulnerable to a downturn or slowdown in the sector or other economic factors.

As of December 31, 2018, substantially all of our investments are concentrated in the multifamily sector. As a result, we will be subject to risks inherent in investments in a single type of property. A downturn or slowdown in the demand for multifamily housing may have more pronounced effects on our results of operations or on the value of our assets than if we had diversified our investments into more than one asset class.

Our operations are concentrated in the Southeast, Southwest and Mid-Atlantic regions of the United States; we are subject to general economic conditions in the regions in which we operate.

As of December 31, 2018, approximately 39.4% of our portfolio is located in our top five markets: Atlanta, Georgia; Dallas, Texas; Austin, Texas; Charlotte, North Carolina; and Orlando, Florida. In addition, our overall operations are concentrated in the Southeast, Southwest and Mid-Atlantic regions of the United States. Our performance could be adversely affected by economic conditions in, and other factors relating to, these geographic areas, including supply and demand for apartments in these areas, zoning and other regulatory conditions and competition from other communities and alternative forms of housing. In particular, our performance is disproportionately influenced by job growth and unemployment. To the extent the economic conditions, job growth and unemployment in any of these markets deteriorate or any of these areas experiences natural disasters, the value of our portfolio, our results of operations and our ability to make payments on our debt and to make distributions could be adversely affected.

Failure to succeed in new markets may have adverse consequences on our performance.

We may make acquisitions outside of our existing market areas if appropriate opportunities arise. Our historical experience in our existing markets does not ensure that we will be able to operate successfully in new markets, should we choose to enter them. We may be exposed to a variety of risks if we choose to enter new markets, including an inability to accurately evaluate local market conditions, to identify appropriate acquisition opportunities, to hire and retain key personnel, and a lack of familiarity with local governmental and permitting procedures. In addition, we may abandon opportunities to enter new markets that we have begun to explore for any reason and may, as a result, fail to recover expenses already incurred.

Substantial competition among apartment communities and real estate companies may adversely affect our revenues and development and acquisition opportunities.

There are numerous other apartment communities and real estate companies, some of which may have greater financial and other resources than we have, within the market area of each of our communities that compete with us for residents and development and acquisition opportunities. The number of competitive apartment communities and real estate companies in these areas could have a material effect on (1) our ability to rent our apartments and generate revenues, and (2) development and acquisition opportunities. The activities of these competitors could cause us to pay a higher price for a new property than we otherwise would have paid or may prevent us from purchasing a desired property at all, which could have a material adverse effect on us and our ability to make payments on our debt and to make distributions.

Acts of violence could decrease the value of our assets and could have an adverse effect on our business and results of operations.

Our apartment communities could directly or indirectly be the location or target of actual or threatened terrorist attacks, crimes, shootings or other acts of violence, the occurrence of which could impact the value of our communities through damage, destruction, loss or increased security costs, as well as result in operational losses due to reduced rental demand, and the availability of insurance may be limited or may be subject to substantial costs. If such an incident were to occur at one of our apartment communities, we may also become subject to significant liability claims. In addition, the adverse effects that actual or threatened terrorist attacks could have on national economic conditions, as well as economic conditions in the markets in which we operate, could similarly have a material adverse effect on our business and results of operations.

We rely on information technology systems in our operations, and any breach or security failure of those systems could materially adversely affect our business, financial condition, results of operations and reputation.

We rely on information technology systems to process, transmit and store information and to manage or support our business processes. We maintain confidential financial and business information regarding us and persons with which we do business on our information technology systems. We also collect and hold personally identifiable information of our residents and prospective residents in connection with our leasing and property management activities, and we collect and hold personally identifiable information of our employees in connection with their employment. In addition, we engage third party service providers that may collect and hold personally identifiable information of our residents, prospective residents and employees in connection with providing business services to us, including web hosting, property management, leasing, accounting and payroll services. The protection of the information technology systems on which we rely is critically important to us. We take steps, and generally require third party service providers to take steps, to protect the security of the information maintained in our and our service providers' information technology systems, including the use of systems, software, tools and monitoring to provide security for processing, transmitting and storing of the information. However, we face risks associated with breaches or security failures of the information technology systems on which we rely, which could result from, among other incidents, cyber-attacks or cyber-intrusions over the Internet, malware, computer viruses or employee error or misconduct. This risk of a breach or security failure, particularly through cyber-attacks or cyber-intrusion, has generally increased due to the rise in new technologies and the increased sophistication and activities of the perpetrators of attempted attacks and intrusions.

The security measures put in place by us and our service providers cannot provide absolute security and there can be no assurance that we or our service providers will not suffer a data security incident in the future, that unauthorized parties will not gain access to sensitive information stored on our or our service providers' systems, that such access will not, whether temporarily or permanently, impact, interfere with or interrupt our operations, or that any such incident will be discovered in a timely manner. Even the most well protected information, networks, systems and facilities remain potentially vulnerable as the techniques used in such attempted security breaches evolve and generally are not recognized until launched against a target, and in some cases are designed to not be detected and, in fact, may not be detected. Accordingly, we and our providers may be unable to anticipate these techniques or to implement adequate security barriers or other preventative measures. Further, in the future, we may be required to expend additional resources to continue to enhance information security measures or to investigate and remediate any information security vulnerabilities.

A data security incident could compromise our or our service providers' information technology systems, and the information stored by us or our service providers, including personally identifiable information of residents, prospective residents and employees, could be accessed, misused, publicly disclosed, corrupted, lost or stolen. Any failure to prevent a breach or a security failure of our or our service providers' information technology systems could interrupt our operations, damage our reputation and brand, damage our competitive position, make it difficult for us to attract and retain residents, subject us to liability claims or regulatory penalties and could materially and adversely affect our business, financial condition or results of operations.

Acquisitions of apartment communities involve various risks and may fail to meet expectations.

We have acquired in the past, and if presented with attractive opportunities we intend to acquire in the future, apartment communities that meet our investment criteria. Our acquisition activities and their success are subject to the following risks:

- we may be unable to obtain financing for acquisitions on favorable terms or at all;
- even if we are able to finance the acquisition, cash flow from the acquisition may be insufficient to meet our required principal and interest payments on the acquisition;

- even if we enter into an acquisition agreement for an apartment community, we may be unable to complete the acquisition after incurring certain acquisition-related costs;
- we may incur significant costs and divert management's attention in connection with the evaluation and negotiation of potential acquisitions, including potential acquisitions that we are subsequently unable to complete;
- when we acquire an apartment community, we may invest additional amounts in it with the intention of increasing revenues and profitability, and these additional investments may not produce the anticipated improvements in revenues or profitability;
- we may be unable to quickly and efficiently integrate acquired apartment communities and new personnel into our existing operations, and the failure to successfully integrate such apartment communities or personnel will result in inefficiencies that could adversely affect our expected return on our investments and our overall profitability; and
- we may acquire properties that are subject to liabilities or that have problems relating to environmental condition, state of title, physical condition or compliance with zoning laws, building codes or other legal requirements and in each case, our acquisition may be without any, or with only limited, recourse with respect to unknown liabilities or conditions and we may be obligated to pay substantial sums to settle or cure it, which could adversely affect our cash flow and operating results.

We are subject to certain risks associated with selling apartment communities, which could limit our operational and financial flexibility.

We periodically dispose of apartment communities that no longer meet our strategic objectives, but adverse market conditions may make it difficult to sell apartment communities like the ones we own. We cannot predict whether we will be able to sell any property for the price or on the terms we set, or whether any price or other terms offered by a prospective purchaser would be acceptable to us. We also cannot predict the length of time needed to find a willing purchaser and to close the sale of a property. Furthermore, we may be required to expend funds to correct defects or to make improvements before a property can be sold. These conditions may limit our ability to dispose of properties and to change our portfolio promptly in order to meet our strategic objectives, which may in turn have a material adverse effect on our financial condition and the market value of our securities. We are also subject to the following risks in connection with sales of our apartment communities:

- a significant portion of the proceeds from our overall property sales may be held by intermediaries in order for some sales to qualify as like-kind exchanges under Section 1031 of the Code, so that any related capital gain can be deferred for federal income tax purposes. As a result, we may not have immediate access to all of the cash proceeds generated from our property sales. In addition, if a transaction intended to qualify as a Section 1031 exchange is later determined to be taxable, we may face adverse consequences, and if the laws applicable to such transactions are amended or repealed, we may not be able to dispose of properties on a tax deferred basis. Intermediary agents of Section 1031 exchange transactions typically handle large sums of money in trusts. Misappropriation of funds by one of these agents could have a material negative impact on our results of operations. Additionally, misappropriation of funds could result in the disposal of the property not qualifying for a tax deferred basis and adversely affect our financial condition. It is also possible the qualification of a transaction as a Section 1031 exchange could be successfully challenged and determined to be currently taxable. In such case, our taxable income and earnings and profits would increase, which could increase the dividend income to our shareholders by reducing any return of capital they received. In some circumstances, we may be required to pay additional dividends or, in lieu of additional dividends, corporate income tax, possibly including interest and penalties. As a result, we may be required to borrow funds in order to pay additional dividends or taxes and the payment of such taxes could cause us to have less cash available to distribute to our shareholders. In addition, if a Section 1031 exchange were later to be determined to be taxable, we may be required to amend our tax returns for the applicable year in question, including any information reports sent to our shareholders; and
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federal tax laws applicable to REITs limit our ability to profit on the sale of communities, and this limitation may prevent us from selling communities when market conditions are favorable.

Property ownership through joint ventures could limit our ability to act exclusively in our interest.

From time to time, we may acquire and/or develop properties in joint ventures with other persons or entities when we believe circumstances warrant the use of such structures. In that case, we could become engaged in a dispute with one or more of our partners which might affect our ability to operate a jointly-owned property. Moreover, our partners could have business, economic or other objectives that are inconsistent with our objectives, including objectives that relate to the appropriate timing and terms of any sale or refinancing of a property. In some instances, our partners could have competing interests in our markets that could create conflicts of interest. Also, our partners might refuse to make capital contributions when due and we may be responsible to our partners for indemnifiable losses. In general, we and our partners could each have the right to trigger a buy-sell arrangement, which could cause us to sell our interest, or acquire our partners' interest, at a time when we otherwise would not have initiated such a transaction and may result in the valuation of our interest in the joint venture (if we are the seller) or of our partners' interest in the joint venture (if we are the buyer) at levels which may not be representative of the valuation that would result from an arm's length marketing process. Other potential risks of a jointly-owned property include (i) a deadlock if we and our partners are unable to agree upon certain major and other decisions, (ii) a limitation of our ability to liquidate our position in the partnership or joint venture without the consent of the other partners and (iii) a requirement to provide guarantees in favor of lenders with respect to the indebtedness of the joint venture.

Environmental problems are possible and can be costly.

Under various federal, state and local laws, ordinances and regulations, a current or previous owner or operator of real estate may be liable for the costs of removal or remediation of certain hazardous or toxic substances in, on, around or under such property. Such laws often impose such liability without regard to whether the owner or operator knew of, or was responsible for, the presence of such hazardous or toxic substances. The presence of, or failure to properly remediate, hazardous, toxic substances or petroleum product releases may adversely affect the owner's or operator’s ability to sell or rent the affected property or to borrow using the property as collateral. Persons who arrange for the disposal or treatment of hazardous or toxic substances may also be liable for the costs of removal or remediation of hazardous or toxic substances at a disposal or treatment facility, whether or not the facility is owned or operated by the person. Certain environmental laws impose liability for the release of asbestos-containing materials into the air, and third parties may also seek recovery from owners or operators of real property for personal injury associated with asbestos-containing materials and other hazardous or toxic substances. Federal and state laws also regulate the operation and subsequent removal of certain underground storage tanks. In connection with the current or former ownership (direct or indirect), operation, management, development or control of real property, we may be considered an owner or operator of such apartment communities or as having arranged for the disposal or treatment of hazardous or toxic substances and, therefore, may be potentially liable for removal or remediation costs, as well as certain other costs, including governmental fines, and claims for injuries to persons and property.

Our current policy is to obtain a Phase I environmental study on each apartment community that we seek to acquire or develop, which generally does not involve invasive techniques such as soil or ground water sampling, and to proceed accordingly. We cannot assure you, however, that the Phase I environmental studies or other environmental studies undertaken with respect to any of our current or future apartment communities will reveal:

- all or the full extent of potential environmental liabilities;
- that any prior owner or operator of a property did not create any material environmental condition unknown to us;
- that a material environmental condition does not otherwise exist as to any one or more of such apartment communities; or
- that environmental matters will not have a material adverse effect on us and our ability to make payments on our debt and to make distributions.

Certain environmental laws impose liability on a previous owner of property to the extent that hazardous or toxic substances were present during the prior ownership period. A transfer of the property does not relieve an owner of such liability. Thus, we may have liability with respect to apartment communities previously sold by our predecessors or by us. There have been a number of lawsuits against owners and operators of multifamily apartment communities 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. Insurance carriers have reacted to these liability awards by excluding mold-related claims from standard policies and pricing mold endorsements separately. We have obtained a separate pollution insurance policy that covers mold-related claims and have adopted programs designed to minimize the existence of mold in any of our apartment communities as well as guidelines for promptly addressing and resolving reports of mold. To the extent not covered by our pollution policy, the presence of mold could expose us to liability from residents and others if property damage or health concerns, or allegations thereof, arise.

Extreme weather or natural disasters may cause property damage or disrupt business, which could harm our business and results of operations.

We have apartment communities located in areas that may be subject to extreme weather and natural disasters, including, but not limited to, earthquakes, winds, floods, hurricanes and fires. Such conditions may damage our properties, disrupt our operations and adversely impact our tenants. There can be no assurances that such conditions will not have a material adverse effect on our properties, operations or business.

Losses from catastrophes may exceed our insurance coverage, which may negatively impact our results of operations and reduce the value of our properties.

We carry comprehensive liability and property insurance on our apartment communities and intend to obtain similar coverage for apartment communities we acquire in the future. Some losses, generally of a catastrophic nature, such as losses from floods, hurricanes or earthquakes, are subject to limitations, and thus may be uninsured. We exercise our discretion in determining amounts, coverage limits and deductibility provisions of insurance, with a view to maintaining appropriate insurance on our investments at a reasonable cost and on suitable terms. If we suffer a substantial loss, our insurance coverage may not be sufficient to pay the full current market value or current replacement value of our lost investment. Inflation, changes in building codes and ordinances, environmental considerations and other factors also might make it infeasible to use insurance proceeds to replace a property after it has been damaged or destroyed. Any losses we experience that are not fully covered by our insurance may negatively impact our results of operations and may reduce the value of our properties.

Increasing real estate taxes, utilities and insurance premiums may negatively impact operating results.

As a result of our substantial real estate holdings, the cost of real estate taxes, utilities and insuring our apartment communities is a significant component of expense. Real estate taxes, utilities and insurance premiums are subject to significant increases and fluctuations, which can be widely outside of our control. If the costs associated with real estate taxes, utilities and insurance premiums should rise, without being offset by a corresponding increase in revenues, our results of operations could be negatively impacted, and our ability to make payments on our debt and to make distributions could be adversely affected.

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 of 1990, or the ADA, the Fair Housing Act of 1988, or the FHA, 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 apartment 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.

As of December 31, 2018, we had three development communities under construction totaling 577 units. We may make further investments in these and other development communities as opportunities arise and may do so through joint ventures with unaffiliated parties. 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;
- we may be unable to obtain financing for development activities under favorable terms, which could cause a delay in construction resulting in increased costs, decreases in revenue, and potentially cause us to abandon the opportunity;
- yields may be less than anticipated as a result of delays in completing projects, costs that exceed budget, higher than expected concessions for lease-up and lower rents than initially estimated;

- 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 an apartment 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 apartment community may fluctuate depending on a number of factors, including market and economic conditions, preventing us from meeting our profitability goals for that community;

- when we sell to third parties apartment communities or properties that we developed or renovated, we may be subject to warranty or construction defects that are uninsured or exceed the limit of our insurance; and
- our failure to successfully enter into a joint venture agreement may prohibit an otherwise advantageous investment if we cannot raise the money through other means.

Short-term leases expose us to the effects of declining market rents and we may be unable to renew leases or relet units as leases expire.

Our apartment leases are generally for a term of one year or less. As these leases typically permit the residents to leave at the end of the lease term without penalty, our revenues are impacted by declines in market rents more quickly than if our leases were for longer terms. If we are unable to promptly renew the leases or relet the units, or if the rental rates upon renewal or reletting are significantly lower than expected rates, then our financial condition and results of operations may be adversely affected.

Legal proceedings that we become involved in from time to time could affect our business.

As an owner, operator and developer of multifamily apartment communities, we may become involved in various legal proceedings, including, but not limited to, proceedings related to commercial, development, employment, environmental, securities, shareholder, tenant or tort legal issues, some of which could result in a class action lawsuit. For example, as described in more detail in "Legal Proceedings" and Note 12 to the consolidated financial statements included elsewhere in this Annual Report on Form 10-K, we are currently a defendant in two class action lawsuits relating to tenant late fee policies at our Texas apartment communities.

Legal proceedings, if decided adversely to or settled by us, and not covered by insurance, could result in liability material to our financial condition, results of operations or cash flows. Likewise, regardless of outcome, legal proceedings could result in substantial costs and expenses, affect the availability or cost of some of our insurance coverage and significantly divert the attention of our management. There can be no assurance that we will be able to prevail in, or achieve a favorable settlement of, any pending or future legal proceedings to which we become subject.

Risks Related to Our Indebtedness and Financing Activities

Our substantial indebtedness could adversely affect our financial condition and results of operations.

As of December 31, 2018, the amount of our total debt was approximately $4.5 billion. We may incur additional indebtedness in the future in connection with, among other things, our acquisition, development and operating activities.

The degree of our leverage creates significant risks, including the following:

- we may be required to dedicate a substantial portion of our funds from operations to servicing our debt and our cash flow may be insufficient to make required payments of principal and interest;
- debt service obligations will reduce funds available for distribution and funds available for acquisitions, development and redevelopment;
- we may be more vulnerable to economic and industry downturns than our competitors that have less debt;
- we may be limited in our ability to respond to changing business and economic conditions;
- we may default on our indebtedness, which could result in acceleration of those obligations, assignment of rents and leases and loss of properties to foreclosure; and
- if one of our subsidiaries defaults, it could trigger a cross default or cross acceleration provision under other indebtedness, which could cause an immediate default or could allow the lenders to declare all funds borrowed

thereunder to be due and payable.

If any one of these events was to occur, our financial condition and results of operations could be materially and adversely affected.

We may be unable to renew, repay or refinance our outstanding debt, which could negatively impact our financial condition and results of operations.

We are subject to the normal risks associated with debt financing, including the risk that our cash flow will be insufficient to meet required payments of principal and interest, the risk that either secured or unsecured indebtedness will not be able to be renewed, repaid or refinanced when due or that the terms of any renewal or refinancing will not be as favorable as the existing terms of such indebtedness. If we are unable to refinance our indebtedness on acceptable terms, if at all, we might be forced to dispose of one or more of our apartment communities on disadvantageous terms, which might result in losses to us. Such losses could have a material adverse effect on us and our ability to make payments on our debt and to make distributions. Furthermore, if a property is mortgaged to secure payment of indebtedness and we are unable to meet mortgage payments, the mortgagee could foreclose upon the property, appoint a receiver and receive an assignment of rents and leases or pursue other remedies, all with a consequent loss of our revenues and asset value. Foreclosures could also create taxable income without accompanying cash proceeds, thereby hindering our ability to meet the REIT distribution requirements of the Code.

Rising interest rates could adversely affect our results of operations and cash flows.

We have incurred and expect in the future to incur indebtedness that bears interest at variable rates. Interest rates could increase, which could result in higher interest expense on our variable-rate debt or increase interest rates when refinancing maturing fixed-rate debt, which could have a material adverse effect on us and our ability to make payments on our debt and to make distributions or cause us to be in default under certain debt instruments. In addition, an increase in market interest rates may lead holders of shares of our common stock to demand a higher yield on their shares from distributions by us, which could adversely affect the market price for our common stock. During 2018, the Federal Reserve raised the federal funds rate by 0.25 points each quarter, resulting in a range of 2.25 percent to 2.5 percent after the Federal Reserve's December 2018 meeting. These increases in the federal funds rate and any future increases due to other key economic indicators, such as the unemployment rate or inflation, may cause interest rates and borrowing costs to rise, which may negatively impact our ability to access the debt markets on favorable terms. Any continued adverse economic conditions could have a material adverse effect on our business, financial condition and results of operations.

We may incur additional debt in the future, which may adversely impact our financial condition.

We currently fund the acquisition and development of apartment communities partially through borrowings (including our revolving credit facility) as well as from other sources such as sales of apartment communities which no longer meet our investment criteria. In addition, we may fund other of our capital requirements through debt. Our organizational documents do not contain any limitation on the amount of indebtedness that we may incur, and we may incur more debt in the future. Accordingly, subject to limitations on indebtedness set forth in various loan agreements and the indentures governing our senior notes, we could become more highly leveraged, resulting in an increase in debt service and an increased risk of default on our obligations, which could have a material adverse effect on our financial condition, our ability to access debt and equity capital markets in the future and our ability to make payments on our debt and to make distributions.

The restrictive terms of certain of our indebtedness may cause acceleration of debt payments.

As of December 31, 2018, we had outstanding borrowings of approximately $4.5 billion. Our indebtedness contains financial covenants as to interest coverage ratios, maximum secured debt, maintenance of unencumbered asset value, and total debt to gross assets, among others, and cross default provisions with other material debt. Our ability to comply with these financial covenants may be affected by changes in our operating and financial performance, changes in general business and economic conditions, adverse regulatory developments or other events adversely impacting us. In the event that an event of default occurs, our lenders may declare borrowings under the respective loan agreements to be due and payable immediately, which could have a material adverse effect on our financial condition and our ability to make payments on our debt and to make distributions.

Failure to hedge effectively against interest rates may adversely affect results of operations.

From time to time, we may seek to manage our exposure to interest rate volatility by using interest rate hedging arrangements, such as interest rate swap agreements. These agreements involve risks, such as the risk that the counterparties may fail to honor their obligations under these arrangements, that these arrangements may not be effective in reducing our exposure to interest rate changes and that a court could rule that such an agreement is not legally enforceable. Hedging may reduce overall returns on our investments. Failure to hedge effectively against interest rate changes could have a material adverse effect on us and our ability to make payments on our debt and to make distributions.

A downgrade in our credit ratings could have a material adverse effect on our business, financial condition and results of operations.

We have a significant amount of debt outstanding. We are currently assigned corporate credit ratings from each of the three ratings agencies based on their evaluation of our creditworthiness. These ratings are based on a number of factors, which include their assessment of our financial strength, liquidity, capital structure, asset quality, and sustainability of cash flows and earnings. If our credit ratings are downgraded or other negative action is taken, we could be required to pay additional interest and fees on our outstanding borrowings. In addition, a downgrade may adversely impact our ability to borrow secured and unsecured debt and otherwise limit our access to capital, which could adversely affect our business, financial condition and results of operations.

Financing may not be available and could be dilutive.

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. We and other companies in the real estate industry have experienced limited availability of financing from time to time. Restricted lending practices could impact our ability to obtain debt financing. If we issue additional equity securities to obtain additional financing, the interest of our existing shareholders could be diluted.

Risks Related to MAA's Organization and Ownership of Its Stock

MAA's ownership limit restricts the transferability of its capital stock.

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

- will consider the transfer to be null and void;
- will not reflect the transaction on its 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 its benefit; and
- will either direct the holder to sell the shares and turn over any profit to MAA, or MAA will redeem the shares. If MAA redeems the shares, the holder 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 its 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 its charter, be deemed to have acquired ownership of the shares, and
the maximum price allowed under the 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 MAA, during the 30 trading days preceding the commencement of such tender offer or the making of such announcement).

The redemption price may be paid, at MAA's 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 its common stock or certain mergers, consolidations or asset transfers by MAA) issued by the Operating Partnership for each excess share being redeemed.

If an investor acquires shares in violation of the limits on ownership described above:

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

Future offerings of debt or equity securities, which may rank senior to our common stock, may adversely affect the market price of our common stock.

If we decide to issue additional debt securities in the future, which would rank senior to our common stock, it is likely that they will be governed by an indenture or other instrument containing covenants restricting our operating flexibility. Additionally, any equity securities or convertible or exchangeable securities that we issue in the future may have rights, preferences and privileges more favorable than those of our common stock and may result in dilution to owners of our common stock. We and, indirectly, our shareholders, will bear the cost of issuing and servicing such securities. Because our decision to issue debt or equity securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of any future offerings. Thus, holders of our common stock will bear the risk of our future offerings reducing the market price of our common stock and diluting the value of their stock holdings.

The form, timing and amount of dividend distributions in future periods may vary and be impacted by economic and other considerations.

Though our Board of Directors has a history of declaring dividends in advance of the quarter they are paid, the form, timing and amount of dividend distributions will be declared, and standing practice changed, at the discretion of the Board of Directors. The form, timing and amount of dividend distributions will depend on actual cash from operations, our financial condition, capital requirements, the annual distribution requirements under the REIT provisions of the Code and other factors as our Board of Directors may consider relevant. Our Board of Directors may modify our dividend policy from time to time.

Provisions of MAA's charter and Tennessee law may limit the ability of a third party to acquire control of MAA.

Ownership Limit

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

Preferred Stock

MAA's charter authorizes our Board of Directors to issue up to 20,000,000 shares of preferred stock, 868,000 of which have been designated as 8.50% Series I Cumulative Redeemable Preferred Stock, which we refer to as MAA Series I preferred stock. In addition to the MAA Series I preferred stock, the Board of Directors may establish the preferences and rights of any other series of preferred shares issued. The issuance of preferred stock could have the effect of delaying or preventing someone from taking control of MAA, even if a change in control were in MAA shareholders' best interests. As of December 31, 2018, 867,846 shares of preferred stock were issued and outstanding, all of which shares were MAA Series I preferred stock.

Tennessee Anti-Takeover Statutes

As a Tennessee corporation, MAA is 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 MAA and increase the difficulty of consummating any such offers, even if MAA's acquisition would be in MAA shareholders' best interests.

Market interest rates and low trading volume may have an adverse effect on the market value of MAA's common stock.

The market price of shares of common stock 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 MAA's common stock may expect a higher annual distribution rate. Higher interest rates would not, however, result in more funds for MAA to distribute and, in fact, would likely increase MAA's borrowing costs and potentially decrease funds available for distribution. This could cause the market price of MAA's common stock to go down. In addition, although MAA's common stock is listed on the NYSE, the daily trading volume of MAA's common stock may be lower than the trading volume for companies in other industries. As a result, MAA's 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 MAA's common stock.

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 MAA's common stock.

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, MAA's common stock 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 MAA's common stock. In addition, we are subject to the risk that our cash flow will be insufficient to pay distributions to MAA's shareholders. Our failure to meet the market's expectations with regard to future earnings and cash distributions would likely adversely affect the market price of MAA's common stock.

The stock markets, including the NYSE, on which MAA lists its common stock, have, at times, experienced significant price and volume fluctuations. As a result, the market price of MAA's common stock could be similarly volatile, and investors in MAA's common stock 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 MAA's publicly traded securities are the following:

- our financial condition and operating performance and the performance of other similar companies;
- actual or anticipated differences in our quarterly and annual operating results;
- changes in our revenues or earnings estimates or recommendations by securities analysts;
- publication of research reports about us or our industry by securities analysts;
- additions and departures of key personnel;
- inability to access the capital markets;
- strategic decisions by us or our competitors, such as acquisitions, dispositions, spin-offs, joint ventures, strategic investments or changes in business strategy;
- the issuance of additional shares of MAA's common stock, or the perception that such sales may occur, including under MAA's at-the-market 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 MAA's common stock;
- 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 the Operating Partnership's Organization and Ownership of OP Units

The Operating Partnership's existing unitholders have limited approval rights, which may prevent the Operating Partnership's sole general partner, MAA, from completing a change of control transaction that may be in the best interests of all unitholders of the Operating Partnership and all shareholders of MAA.

MAA may not engage in a sale or other disposition of all or substantially all of the assets of the Operating Partnership, dissolve the Operating Partnership or, upon the occurrence of certain triggering events, take any action that would result in any unitholder realizing taxable gain, without the approval of the holders of a majority of the outstanding OP Units held by holders other than MAA or its affiliates, or Class A OP Units. The right of the holders of our Class A OP Units to vote on these transactions could limit MAA's ability to complete a change of control transaction that might otherwise be in the best interest of all unitholders of the Operating Partnership and all shareholders of MAA.

In certain circumstances, certain of the Operating Partnership's unitholders must approve the Operating Partnership's sale of certain properties contributed by the unitholders.

In certain circumstances, as detailed in the partnership agreement of the Operating Partnership, the Operating Partnership may not sell or otherwise transfer certain properties unless a specified percentage of the limited partners who were partners in the limited partnership holding such properties at the time of its acquisition by us approves such sale or transfer. The exercise of these approval rights by the Operating Partnership's unitholders could delay or prevent the Operating Partnership from completing a transaction that may be in the best interest of all unitholders of the Operating Partnership and all shareholders of MAA.

MAA, its officers and directors have substantial influence over the Operating Partnership's affairs.

MAA, as the Operating Partnership's sole general partner and acting through its officers and directors, has a substantial influence on the Operating Partnership's affairs. MAA, its officers and directors could exercise their influence in a manner that is not in the best interest of the unitholders of the Operating Partnership. Also, MAA owns approximately 96.5% of the OP Units and as such, will have substantial influence on the outcome of substantially all matters submitted to the Operating Partnership's unitholders for approval.

Market interest rates and low trading volume may have an adverse effect on the market value of MAA's common stock, which would affect the redemption price of the OP Units.

The market price of shares of common stock 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 MAA's common stock may expect a higher annual distribution rate. Higher interest rates would not, however, result in more funds for MAA to distribute and, in fact, would likely increase MAA's borrowing costs and potentially decrease funds available for distribution. This could cause the market price of MAA's common stock to go down, which would reduce the price received upon redemption of any OP Units, or if MAA so elects, the value of MAA's common stock received in lieu of cash upon redemption of such OP Units. In addition, although MAA's common stock is listed on the NYSE, the daily trading volume of MAA's common stock may be lower than the trading volume for companies in other industries. As a result, MAA's 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 MAA's common stock.

Insufficient cash flow from operations or a decline in the market price of MAA's common stock may reduce the amount of cash available to the Operating Partnership to meet its obligations.

The Operating Partnership is subject to the risk that its cash flow will be insufficient to make payments on its debt and to make distributions to its unitholders, which may cause MAA to not have the funds to make distributions to its shareholders. MAA’s 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 its shares and thus potentially reduce MAA’s ability to contribute funds from issuances down to the Operating Partnership, resulting in a lower level of cash available for investment, to make payments on its debt or to make distributions to its unitholders.

Risks Related to Tax Laws

Failure to qualify as a REIT would cause us to be taxed as a corporation, which would significantly reduce funds available for distribution to shareholders.

If MAA fails to qualify as a REIT for federal income tax purposes, MAA will be subject to federal income tax on its taxable income at regular corporate rates without the benefit of the dividends paid deduction applicable to REITs. In addition, unless MAA is entitled to relief under applicable statutory provisions, MAA would be ineligible to make an election for treatment as a REIT for the four taxable years following the year in which it loses its qualification. The additional tax liability resulting from the failure to qualify as a REIT would significantly reduce or eliminate the amount of funds available for distribution to MAA's shareholders. MAA's failure to qualify as a REIT also could impair its ability to expand its business and raise capital, and would adversely affect the value of MAA's common stock.

MAA believes that it is organized and qualified as a REIT, and MAA intends to operate in a manner that will allow it to continue to qualify as a REIT. MAA cannot assure, however, that it is qualified or will remain qualified as a REIT. This is because qualification as a REIT involves the application of highly technical and complex provisions of the Code for which there are only limited judicial and administrative interpretations and involves the determination of a variety of factual matters and circumstances not entirely within MAA's control. In addition, future legislation, new regulations, administrative interpretations or court decisions may significantly change the tax laws or the application of the tax laws with respect to qualification as a REIT for federal income tax purposes or the federal income tax consequences of qualification as a REIT.

Even if MAA qualifies as a REIT, MAA will be subject to various federal, state and local taxes, including property taxes and income taxes on taxable income that MAA does not timely distribute to its shareholders. In addition, MAA may hold certain assets and engage in certain activities that a REIT could not engage in directly through its taxable REIT subsidiaries, or TRSs, and those TRSs will be subject to federal income tax at regular corporate rates on their taxable income without the benefit of the dividends paid deduction applicable to REITs.

Furthermore, we have a subsidiary that has elected to be treated as a REIT, and if our subsidiary REIT were to fail to qualify as a REIT, it is possible that we also would fail to qualify as a REIT unless we (or the subsidiary REIT) could qualify for certain relief provisions. The qualification of our subsidiary REIT as a REIT will depend on satisfaction, on an annual or quarterly basis, of numerous requirements set forth in highly technical and complex provisions of the Code for which there are only limited judicial or administrative interpretations. A determination as to whether such requirements are satisfied involves various factual matters and circumstances not entirely within our control. The fact that we hold substantially all of our assets through the Operating Partnership and its subsidiaries further complicates the application of the REIT requirements for us. No assurance can be given that our subsidiary REIT will qualify as a REIT for any particular year.

If any REIT previously acquired by us failed to qualify as a REIT for U.S. federal income tax purposes, we would incur adverse tax consequences and our financial condition and results of operations would be materially adversely affected.

Prior to the merger with Post Properties, Post Properties operated in a manner intended to allow it to qualify as a REIT for U.S. federal income tax purposes. If Post Properties, or any other REIT previously acquired by MAA (each, a "Merged REIT"), is determined to have lost its REIT status at any time prior to its merger with MAA, MAA would be subject to serious adverse tax consequences, including:

- MAA would be required to pay U.S. federal income tax at regular corporate rates on the taxable income of such Merged REIT without the benefit of the dividends paid deduction for the taxable years that the Merged REIT did not qualify as a REIT and for which the statute of limitations period remains open; and
- MAA would be required to pay any federal alternative minimum tax liability of the Merged REIT and any applicable state and local tax liability, in each case, for all taxable years that remain open under the applicable statute of limitations periods.

MAA is liable for any tax liability of a Merged REIT with respect to any periods prior to the merger of such Merged REIT with MAA. If a Merged REIT failed to qualify as a REIT, then in the event of a taxable disposition by MAA of an asset previously held by the Merged REIT during a specified period of up to 5 years following the merger of the Merged REIT with MAA, MAA will be subject to corporate income tax with respect to any built-in gain inherent in such asset as of the date of such merger. In addition, unless an applicable statutory relief provision applies, if a Merged REIT failed to qualify as a REIT for a taxable year, then the Merged REIT would not have been entitled to re-elect to be taxed as a REIT until the fifth taxable year following the year during which it was disqualified. Furthermore, if both MAA and a Merged REIT were "investment companies" under the "investment company" rules set forth in Section 368 of the Code at the time of the merger of MAA and such Merged REIT, the failure of MAA or such Merged REIT to have qualified as a REIT at the time of their merger could result in such merger being treated as taxable for federal income tax purposes. As a result of all these factors, the failure by a Merged REIT to have qualified as a REIT could jeopardize MAA's qualification as a REIT and require the Operating Partnership to provide material amounts of cash to MAA to satisfy MAA’s additional tax liabilities and, therefore, could have a material adverse effect on MAA’s business prospects, financial condition or results of operations and on MAA’s ability to make payments on our debt and to make distributions.

The Operating Partnership may fail to be treated as a partnership for federal income tax purposes.

We believe that the Operating Partnership qualifies, and has so qualified since its formation, as a partnership for federal income tax purposes and not as a publicly traded partnership taxable as a corporation. No assurance can be provided, however, that the Internal Revenue Service, or IRS, will not challenge the treatment of the Operating Partnership as a partnership for federal income tax purposes or that a court would not sustain such a challenge. If the IRS were successful in treating the Operating Partnership as a corporation for federal income tax purposes, then the taxable income of the Operating Partnership would be taxable at regular corporate income tax rates. In addition, the treatment of the Operating Partnership as a corporation would cause MAA to fail to qualify as a REIT. See "Failure to qualify as a REIT would cause us to be taxed as a corporation, which would significantly reduce funds available for distribution to shareholders" above.

Certain dispositions of property by us may generate prohibited transaction income, resulting in a 100% penalty tax on any gain attributable to the disposition.

Any gain resulting from a transfer of property that we hold as inventory or primarily for sale to customers in the ordinary course of business would be treated for federal income tax purposes as income from a prohibited transaction that is subject to a 100% penalty tax. Since we acquire properties for investment purposes, we do not believe that our occasional transfers or disposals of property would be considered prohibited transactions. Whether property is held for investment purposes is a question of fact that depends on all the facts and circumstances surrounding the particular transaction. As such, the IRS may contend that certain transfers or disposals of properties by us are prohibited transactions. If the IRS were to argue successfully that a transfer or disposition of property constituted a prohibited transaction, then we would be required to pay a 100% penalty tax on any gain allocable to us from the prohibited transaction. In addition, income from a prohibited transaction might adversely affect our ability to satisfy the income tests for qualification as a REIT for federal income tax purposes. A safe harbor to the characterization of the disposition of property as a prohibited transaction and the resulting imposition of the 100% tax is available; however, we cannot assure that we will be able to comply with such safe harbor in connection with any property dispositions.

The recently enacted legislation informally titled the Tax Cuts and Jobs Act and other legislative, regulatory and administrative developments may adversely affect MAA or its shareholders.

On December 22, 2017, President Trump signed into law P.L. 115-97, informally titled the Tax Cuts and Jobs Act, or the Tax Act. The Tax Act makes major changes to the Code, including a number of provisions of the Code that affect the taxation of REITs and their shareholders. Certain provisions of the Tax Act that may impact us and our shareholders include:

- temporarily reducing individual U.S. federal income tax rates on ordinary income; the highest individual U.S. federal income tax rate will be reduced from 39.6% to 37% (through taxable years ending in 2025);
- reducing the maximum corporate income tax rate from 35% to 21%;
- permitting a deduction for certain pass-through business income, including dividends received from REITs that are not designated as capital gain dividends or qualified dividend income, which generally will allow individuals, trusts and estates to deduct up to 20% of such amounts, resulting in an effective maximum U.S. federal income tax rate of 29.6% on such dividends (through taxable years ending in 2025);
- reducing the highest rate of withholding with respect to distributions to non-U.S. shareholders attributable to gains from the sale or exchange of U.S. real property interests from 35% to 21%;
- limiting the deduction for net operating losses to 80% of taxable income (prior to the application of dividends paid deduction);
- amending the limitation on the deduction of net interest expense for all businesses, other than certain electing businesses, including real estate businesses (which could adversely affect the taxation of any taxable REIT subsidiaries); and
- eliminating the corporate alternative minimum tax.

The individual and collective impact of these provisions and other provisions of the Tax Act on MAA and its shareholders is uncertain, and may not become evident for some period of time. In addition, other legislative, regulatory or administrative changes may be enacted or promulgated, either prospectively or with retroactive effect, and may adversely affect MAA or its shareholders. MAA's shareholders and prospective shareholders should consult their individual tax advisors regarding the implications of the Tax Act and other potential legislative, regulatory or administrative changes on their investment in MAA's capital stock.

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 Southeast, Southwest and Mid-Atlantic regions of the United States with the potential for above average growth and return on investment. Approximately 68% of our apartment units are located in the Florida, Georgia, North Carolina, and Texas markets. Our strategic focus is to provide our residents high quality apartment units in attractive community settings, characterized by upscale amenities, extensive landscaping and attention to aesthetic detail.

The following table summarizes our apartment community portfolio and occupancy levels by location, as of December 31, 2018:

	Number of Communities	Number of Units (1)	Average Unit Size (Square Footage)	Average Occupancy(2)	
Atlanta, GA	28	10,664	1,040.4	95.9	%
Dallas, TX	29	9,404	884.2	95.3	%
Austin, TX	21	6,475	935.6	95.8	%
Charlotte, NC	21	6,149	965.0	96.2	%
Tampa, FL	14	5,220	1,015.6	96.3	%
Orlando, FL	12	4,498	1,027.4	96.2	%
Houston, TX	14	4,479	882.4	96.2	%
Raleigh/ Durham, NC	14	4,397	1,016.5	96.3	%
Fort Worth, TX	11	4,249	902.9	95.8	%
Washington, DC	10	4,080	926.4	96.7	%
Nashville, TN	10	3,776	1,019.6	95.6	%
Jacksonville, FL	10	3,496			