MID AMERICA APARTMENT COMMUNITIES INC
Form 10-K
February 25, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

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

For the Fiscal Year Ended December 31, 2009.

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: 1-12762

MID-AMERICA APARTMENT COMMUNITIES, INC.

(Exact Name of Registrant as Specified in Its Charter)

TENNESSEE (State or Other Jurisdiction of Incorporation or Organization)	62-1543819 (I.R.S. Employer Identification No.)
6584 POPLAR AVENUE MEMPHIS, TENNESSEE (Address of Principal Executive Offices)	38138 (Zip Code)

(901) 682-6600

(Registrant's Telephone Number, Including Area Code)

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value $.01 per share	New York Stock Exchange
Series H Cumulative Redeemable Preferred Stock, Par value $.01 per share	New York Stock Exchange

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

Indicate by check mark if registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes o No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to the filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).Yes o No o

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

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

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

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

As of June 30, 2009, the aggregate market value of the registrant s common stock held by non-affiliates of the registrant was $1,022,339,066, based on the closing sale price as reported on the New York Stock Exchange.

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

Class	Outstanding at February 5, 2010
Common Stock, $.01 par value per share	29,211,776 shares

DOCUMENTS INCORPORATED BY REFERENCE

Document	Parts into Which Incorporated
Certain portions of the Proxy Statement for the Annual Meeting of Shareholders to be held May 27, 2010 to be filed with the Securities and Exchange Commission pursuant to Regulation 14A, not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.	Part III

MID-AMERICA APARTMENT COMMUNITIES, INC.

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PART I

RISKS ASSOCIATED WITH FORWARD-LOOKING STATEMENTS

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

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

inability to generate sufficient cash flows due to market conditions, changes in supply and/or demand, competition, uninsured losses, changes in tax and housing laws, or other factors;

increasing real estate taxes and insurance costs;

failure of new acquisitions to achieve anticipated results or be efficiently integrated into us;

failure of development communities to lease-up as anticipated;

inability of a joint venture to perform as expected;

inability to acquire additional or dispose of existing apartment units on favorable economic terms;

losses from catastrophes in excess of our insurance coverage;

unexpected capital needs;

inability to attract and retain qualified personnel;

potential liability for environmental contamination;

adverse legislative or regulatory tax changes;

litigation and compliance costs associated with laws requiring access for disabled persons;

imposition of federal taxes if we fail to qualify as a REIT under the Internal Revenue Code in any taxable year or foregone opportunities to ensure REIT status;

inability to acquire funding through the capital markets;

inability to pay required distributions to maintain REIT status due to required debt payments;

changes in interest rate levels, including that of variable rate debt, such as extensively used by us;

loss of hedge accounting treatment for interest rate swaps;

the continuation of the good credit of our interest rate swap and cap providers;

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the availability of credit, including mortgage financing, and the liquidity of the debt markets, including a material deterioration of the financial condition of the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation, at present operating under the conservatorship of the United States Government;

inability to meet loan covenants; and

significant decline in market value of real estate serving as collateral for mortgage obligations.

ITEM 1. BUSINESS

OVERVIEW

Founded in 1994, Mid-America Apartment Communities, Inc. is a Memphis, Tennessee-based self-administered and self-managed real estate investment trust, or REIT, that focuses on acquiring, owning and operating apartment communities in the Sunbelt region of the United States. As of December 31, 2009, we owned 100% of 144 properties representing 42,684 apartment units. As of December 31, 2009, we also had 33.33% ownership interests in Mid-America Multifamily Fund I, LLC, or Fund I, and Mid-America Multifamily Fund II, LLC, or Fund II, which owned two properties containing 626 apartment units and one property containing 294 apartment units, respectively. These apartment communities were located across 13 states.

Our business is conducted principally through Mid-America Apartments, L.P., which we refer to as our operating partnership. We are the sole general partner of the operating partnership, holding 297,176 common units of partnership interest, or common units, comprising a 1% general partnership interest in the operating partnership as of December 31, 2009. Mid-America Apartment Communities, Inc. s wholly-owned qualified REIT subsidiary, MAC II of Delaware, Inc. is a limited partner in the operating partnership and, as of December 31, 2009, held 27,114,739 common units, or 91.24% of all outstanding common units. Unless the context otherwise requires, all references in this Annual Report on Form 10-K to we, us, our, the company, or Mid-America refer collectively to Mid-Ame Apartment Communities, Inc. and its subsidiaries.

Our corporate offices are located at 6584 Poplar Avenue, Memphis Tennessee 38138 and our telephone number is (901) 682-6600. As of December 31, 2009, we had 1,204 full time employees and 78 part time employees.

FINANCIAL INFORMATION ABOUT SEGMENTS

As each of our apartment communities has similar economic characteristics, residents, and products and services, our operations have been aggregated into one reportable segment. See our consolidated financial statements and notes included thereto in Item 15 of this Annual Report on Form 10-K for certain information required by Item 1.

BUSINESS OBJECTIVES

Our primary business objectives are to protect and grow existing property values, to maintain a stable and increasing cash flow that will fund our dividend through all parts of the real estate investment cycle, and to create new shareholder value by growing in a disciplined manner. To achieve these objectives, we intend to continue to pursue the following goals and strategies:

effectively and efficiently operate our existing properties with intense property and asset management focus and a decentralized structure;

when accretive to shareholder value, acquire additional high-quality properties throughout the Sunbelt region of the United States;

selectively dispose of properties that no longer meet our ownership guidelines;

develop, renovate and reposition existing properties;

enter into joint ventures to acquire and reposition properties; and

actively manage our capital structure.

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OPERATION STRATEGY

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

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

Decentralized Operational Structure

We operate in a decentralized manner. We believe that our decentralized operating structure capitalizes on specific market knowledge, provides greater personal accountability than a centralized structure and is beneficial in the acquisition and redevelopment processes. To support this decentralized operational structure, senior and executive management, along with various asset management functions, are proactively involved in supporting and reviewing property management through extensive reporting processes and frequent on-site visitations. To maximize the amount of information shared between senior and executive management and the properties on a real time basis, we utilize a web-based property management system. The system contains property and accounting modules which allow for operating efficiencies, continued expense control, provide for various expanded revenue management practices, and improve the support provided to on-site property operations. We use a yield management pricing program that helps our property managers optimize rental revenues and we also utilize purchase order and accounts payable software to provide improved controls and management information. We have also implemented revised utility billing processes, rolled out new web-sites enabling on-line lease applications and improved web-based marketing programs.

Intensive Property and Asset Management Focus

We have traditionally emphasized property management, and over the past several years, we have deepened our asset management functions to provide additional support in marketing, training, ancillary income and, most recently, revenue management. A large majority of our property managers are Certified Apartment Managers, a designation established by the National Apartment Association, which provides training for on-site manager professionals. We also provide our own in-house leadership development program consisting of an 18-month, three-module program followed by two comprehensive case studies which was developed with the assistance of U.S. Learning, Inc.

ACQUISITION STRATEGY

One of our growth strategies is to acquire and redevelop apartment communities diversified over both large and secondary markets throughout the Sunbelt region of the United States that meet our investment criteria when the expected leveraged returns exceed our investment hurdle rate, generally defined as our estimated cost of equity plus 20%. We have extensive experience and research-based skills in the acquisition and repositioning of multifamily communities. In addition, Mid-America will acquire newly built and developed communities that can be purchased on a favorable pricing basis. We will continue to evaluate opportunities that arise, and will utilize this strategy to increase the number of apartment communities in strong and growing markets.

The following apartment communities were purchased during 2009:

Property	Location	Number of Units	Date Purchased
100% Owned Properties:			
Sky View Ranch	Gilbert (Phoenix), AZ	232	June 12, 2009
Park Crest at Innisbrook	Palm Harbor (Tampa), FL	432	October 9, 2009
Stone Ranch at Westover Hills	San Antonio, TX	400	December 4, 2009
Legacy at Western Oaks	Austin, TX	479	December 30, 2009
Village Oaks(1)	Temple Terrace (Tampa), FL	7	Various
		1,550	
33.33% Owned Properties Through Joint Ventures:			
Ansley Village	Macon, GA	294	July 24, 2009
		294	
Total 2009 Acquisitions		**1,844**	

(1) On August 27, 2008, we purchased 215 units of the 234-unit Village Oaks apartments located in Temple Terrace, Florida, a suburb of Tampa. The remaining 19 units had previously been sold as condominiums and it is our intent to acquire these units if and when they become available, and operate them as apartment rentals with the rest of the community. During the remainder of 2008, we acquired four of the remaining 19 units and in 2009 we acquired an additional seven units.

DISPOSITION STRATEGY

We have one of the younger portfolios in the multifamily REIT sector, and strive to maintain a young portfolio of our assets in excellent condition, believing that continuous capital replacement and maintenance will lead to higher long-run returns on investment. From time-to-time we dispose of mature assets, defined as those apartment communities that no longer meet our investment criteria and long-term strategic objectives, to ensure that our portfolio consists primarily of high quality, well-located properties within our market area. Typically, we select assets for disposition that do not meet our present investment criteria, including estimated future return on investment, location, market, potential for growth, and capital needs. From time-to-time we also may dispose of assets for which we receive an offer meeting or exceeding our return on investment criteria even though those assets may not meet the disposition criteria disclosed above.

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The following apartment communities were sold during 2009:

Property	Location	Number of Units	Date Sold
100% Owned Properties:			
Woodstream	Greensboro, NC	304	January 15, 2009
Riverhills	Grenada, MS	96	May 12, 2009
River Trace	Memphis, TN	440	December 17, 2009
		840	
Total 2009 Dispositions		**840**	

RENOVATION, REPOSITIONING AND DEVELOPMENT STRATEGY

In 2006, we began some limited expansion development projects on adjacent land to existing apartment communities using fixed price contracts. In 2009, we completed construction on these projects. We do not currently have any additional development projects planned nor intend to maintain a dedicated development staff or to expand into development in a significant way. We prefer to capture accretive new growth through opportunistically acquiring new properties.

Beginning in 2005, we began an initiative of upgrading a significant number of our existing apartment communities in key markets across our portfolio. We focus on both interior unit upgrades and shared exterior amenities above and beyond routine capital upkeep in markets that we feel continue to have growth potential and can support the increased rent. As of December 31, 2009, we have renovated 9,090 units achieving a combined 12% rent increase above the normal renewal rate.

JOINT VENTURE STRATEGY

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

As of December 31, 2009, we were partners in two joint ventures: Mid-America Multifamily Fund I, LLC, or Fund I, and Mid-America Multifamily Fund II, LLC, or Fund II.

CAPITAL STRUCTURE STRATEGY

We use a combination of debt and equity sources to fund our portfolio of assets, focused on producing the overall lowest cost and most flexible capital structure. We focus on improving the net present value of each share of our common stock by generating cash flows from our portfolio of investments above the estimated total cost of debt and equity capital. We routinely make new investments when we believe it can add to value per share. In the past, we have sold assets to fund share repurchases when, in management s view, shareholder value would be enhanced.

At December 31, 2009, 46% of our total capitalization consisted of borrowings. We currently intend to target our total debt to a range of approximately 45% to 55% of the undepreciated book value of our assets, although our charter and bylaws do not limit our debt levels. We may issue new equity to maintain our debt within this target range. Circumstances may cause us to exceed that target from time-to-time. As of December 31, 2009, our ratio of debt to undepreciated book value was approximately 50%. Our Board of Directors can modify this policy at any time which could allow us to become more highly leveraged but may decrease our ability to make distributions to our shareholders.

COMMON AND PREFERRED STOCK

We continuously review opportunities for lowering our cost of capital, and increasing net present value per share. We evaluate opportunities to repurchase stock when we believe that our stock price is below our net present value. We also look for opportunities where we can acquire or develop apartment communities,

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selectively funded or partially funded by stock sales, when the investment return is projected to substantially exceed our cost of capital. We will also opportunistically seek to lower our cost of capital through refinancing preferred stock.

On November 3, 2006, Mid-America entered into a sales agreement with Cantor Fitzgerald & Co. to sell up to 2,000,000 shares of Mid-America s common stock, from time-to-time in at-the-market offerings or negotiated transactions through a controlled equity offering program. In July, 2008, we entered into a second controlled equity offering sales agreement with similar terms authorizing the sale of up to 1,350,000 shares of common stock.

The following are the issuances of common stock which have been made through these agreements through December 31, 2009:

	Number of Shares Sold	Net Proceeds	Net Average Sales Price
2006	194,000	$ 11,481,292	$ 59.18
2007	323,700	$ 18,773,485	$ 58.00
2008	1,955,300	$ 103,588,758	$ 52.98
2009	763,000	$ 32,774,757	$ 42.96
Total	**3,236,000**	**$ 166,618,292**	**$ 51.49**

In November 2009, we entered into a third controlled equity offering sales agreement with Cantor Fitzgerald & Co. with similar terms authorizing the sale of up to 4,000,000 shares of common stock. No sales were made under this agreement as of December 31, 2009.

In October 2007, we redeemed all of our issued and outstanding 9¼% Series F Cumulative Redeemable Preferred Stock for $11.9 million.

We also have a direct stock purchase plan which allows for the optional cash purchase of common stock of at least $250, but not more than $5,000 in any given month, free of brokerage commissions and charges. We, in our absolute discretion, may grant waivers to allow for optional cash payments in excess of $5,000. Throughout 2009, we issued a total of 1,100 shares through the direct stock purchase plan. We did not offer a discount during 2009, nor grant any waivers during 2009.

SHARE REPURCHASE PROGRAM

In 1999, our Board of Directors approved an increase in the number of shares of our common stock authorized to be repurchased to 4 million shares. As of December 31, 2009, Mid-America had repurchased a total of approximately 1.86 million shares (8% of the shares of common stock and common units outstanding as of the beginning of the repurchase program). From time-to-time, we intend to sell assets based on our disposition strategy outlined in this Annual Report and use the proceeds to repurchase shares when we believe that shareholder value is enhanced. Factors affecting this determination include the share price, asset dispositions and pricing, financing agreements and rates of return. No shares were repurchased from 2002 through 2009 under this plan.

COMPETITION

All of our apartment communities are located in areas that include other apartment communities. Occupancy and rental rates are affected by the number of competitive apartment communities in a particular area. The owners of competing apartment communities may have greater resources than us, and the managers of these apartment communities may have more experience than our management. Moreover, single-family rental housing, manufactured housing, condominiums and the new and existing home markets provide housing alternatives to potential residents of apartment communities.

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

ENVIRONMENTAL MATTERS

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

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

We are aware of environmental concerns specifically relating to potential issues resulting from mold in residential properties and have in place an active management and preventive maintenance program that includes procedures specifically related to mold. We have established a policy requiring residents to sign a mold addendum to lease. We have also purchased a $5 million insurance policy that covers remediation and exposure to mold. The current policy expires in 2010 but is renewable at that time. Therefore, we believe that our exposure to this issue is limited and controlled.

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

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

WEBSITE ACCESS TO REGISTRANT S REPORTS

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

Additionally, a copy of this Annual Report on Form 10-K, along with Mid-America s Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to the aforementioned filings, are available on our website free of charge. The filings can be found on the Investor Relations page under SEC Filings. Our website also contains our Corporate Governance Guidelines, Code of Business Conduct and Ethics and the charters of the committees of the Board of Directors. These items can be found on the Investor Relations page under Governance Documents. Our website address is http://www.maac.net. Reference to our website does not constitute incorporation by reference of the information contained on the site and should not be considered

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part of this document. All of the aforementioned materials may also be obtained free of charge by contacting the Investor Relations Department at Mid-America Apartment Communities, Inc., 6584 Poplar Avenue, Memphis, TN 38138.

QUALIFICATION AS A REAL ESTATE INVESTMENT TRUST

We have elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended, or the Code. To continue to qualify as a REIT, we must continue to meet certain tests which, among other things, generally require that our assets consist primarily of real estate assets, our income be derived primarily from real estate assets, and that we distribute at least 90% of our REIT taxable income (other than our net capital gain) to our shareholders annually. As a qualified REIT, we generally will not be subject to U.S. federal income taxes at the corporate level on our net income to the extent we distribute such net income to our shareholders annually. Even if we continue to qualify as a REIT, we will continue to be subject to certain federal, state and local taxes on our income and our property. In 2009, we declared total distributions of $2.46 per common share to our shareholders which was above the 90% REIT distribution requirement.

RECENT DEVELOPMENTS

Dispositions

On January 28, 2010, Mid-America Apartments, LP sold Legacy at Western Oaks to Fund II, one of our joint ventures. For tax purposes, this transaction was considered a contribution.

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

Economic slowdown in the United States and the related downturn in the housing and real estate markets have adversely affected and may continue to adversely affect our financial condition and results of operations

There has been a significant decline in economic growth, both in the United States and globally, in the second half of 2008 and throughout 2009. The trends in both the real estate industry and the broader United States economy continue to be unfavorable and continue to adversely affect our revenues. The weakened economy and related reduction in spending, falling home prices and mounting job losses, together with the price volatility, dislocations and liquidity disruptions in the financial and credit markets could, among other things, impede the ability of our tenants and other parties with which we conduct business to perform their contractual obligations, which could lead to an increase in defaults by our tenants and other contracting parties, which could adversely affect our revenues. Furthermore, our ability to lease our properties at favorable rates, or at all, is adversely affected by the increase in supply and deterioration in the multifamily market and is dependent upon the overall level of spending in the economy, which is adversely affected by, among other things, job losses and unemployment levels, recession, personal debt levels, the downturn in the housing market, stock market volatility and uncertainty about the future. With regard to our ability to lease our multifamily properties, the increasing rental of excess for-sale condominiums and single family homes, which increases the supply of multifamily units and housing alternatives, may further reduce our ability to lease our multifamily units and further depress rental rates in certain markets. We cannot predict how long demand and other factors in the real estate market will remain unfavorable, but if the markets remain weak or deteriorate further, our ability to lease our properties, our ability to increase or maintain rental rates in certain markets may continue to weaken during 2010.

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

Our ability to generate sufficient cash flow in order to pay distributions to our shareholders depends on our ability to generate funds from operations in excess of capital expenditure requirements and/or to have

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access to the markets for debt and equity financing. Funds from operations and the value of our apartment communities may be insufficient because of factors which are beyond our control. Such events or conditions could include:

- competition from other apartment communities;
- overbuilding of new apartment units or oversupply of available apartment units in our markets, which might adversely affect apartment occupancy or rental rates and/or require rent concessions in order to lease apartment units;
- conversion of condominiums and single family houses to rental use;
- weakness in the overall economy which lowers job growth and the associated demand for apartment housing;
- increases in operating costs (including real estate taxes and insurance premiums) due to inflation and other factors, which may not be offset by increased rents;
- inability to initially, or subsequently after lease terminations, rent apartments on favorable economic terms;
- changes in governmental regulations and the related costs of compliance;
- changes in laws including, but not limited to, tax laws and housing laws including the enactment of rent control laws or other laws regulating multifamily housing;
- withdrawal of Government support of apartment financing through its financial backing of the Federal National Mortgage Association, or FNMA, or the Federal Home Loan Mortgage Corporation, or Freddie Mac;
- an uninsured loss, including those resulting from a catastrophic storm, earthquake, or act of terrorism;
- changes in interest rate levels and the availability of financing, borrower credit standards, and down-payment requirements which could lead renters to purchase homes (if interest rates decrease and home loans are more readily available) or increase our acquisition and operating costs (if interest rates increase and financing is less readily available); and
- the relative illiquidity of real estate investments.

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

Our financing could be impacted by negative capital market conditions

Recently, domestic financial markets have experienced unusual volatility and uncertainty. Liquidity has tightened in financial markets, including the investment grade debt, the CMBS, commercial paper, and equity capital markets. A large majority of apartment financing, and as of December 31, 2009, 93% of our outstanding debt, is provided by or credit-enhanced by FNMA and Freddie Mac, which are now under the conservatorship of the U.S. Government. We have seen an increase in the volatility of short term interest rates and changes in historic relationships between LIBOR (which is the basis for the majority of the payments to us by our swap counterparties) and the actual interest rate we pay through the FNMA Discount Mortgage Backed Security, or DMBS, and the Freddie Mac Reference Bill programs, which we believe to be temporary. This creates a risk that our interest expense will fluctuate to a greater extent than it has in the past, and it makes forecasting more difficult. Were our credit arrangements with Prudential Mortgage Capital, credit-enhanced by FNMA, or with Financial Federal, credit-enhanced by Freddie Mac, to fail, or their ability

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to lend money to finance apartment communities to become impaired, we would have to seek alternative sources of capital, which might not be available on terms acceptable to us, if at all. In addition, any such event would most likely cause our interest costs to rise. This could also cause our swaps to become ineffective, triggering a default in one or more of our credit agreements. If any of the foregoing events were to occur it could have a material adverse affect on our business, financial condition and prospects.

Various traunches of our credit facilities with FNMA and Freddie Mac mature from 2011 through 2018, and we anticipate that replacement facilities will be at a higher cost and have less attractive terms, if available at all.

A change in U.S. government policy with regard to FNMA and Freddie Mac could seriously impact our financial condition

The U.S. government has committed preferred equity to FNMA and Freddie Mac, placing them in conservatorship and the Treasury Department increased FNMA and Freddie Mac s portfolio caps which are required to be reduced over time. Through expansion of their off-balance sheet lending products (which form the large majority of our borrowing), we believe that FNMA and Freddie Mac balance sheet limitations will not restrict their support of lending to the multifamily industry and to us in particular. Statements supporting their involvement in apartment lending by the heads of multifamily lending of FNMA, Freddie Mac, and their regulator have been reiterated. Should this support change, it would have a material adverse affect on both us and the multifamily industry, and we would seek alternative sources of funding. This could jeopardize the effectiveness of our interest rate swaps, require us to post collateral up to the value of the interest rate swaps, and either of these occurrences could potentially cause a breach in one or more of our loan covenants, and through reduced loan availability, impact the value of multifamily assets, which could impair the value of our properties.

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

We borrow on a secured basis from FNMA, Freddie Mac, and Regions Bank. A significant reduction in the value of our assets could require us to post additional collateral. While we believe that we have significant excess collateral and capacity, future asset values are uncertain. If we were unable to meet a request to add collateral to a credit facility, this would have a material adverse affect on our liquidity and our ability to meet our loan covenants. We may determine that the value of an individual asset, or group of assets, was irrevocably impaired, and that we may need to record a charge to write-down the value of the asset to reflect its current value.

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

At December 31, 2009, we had total debt outstanding of $1.4 billion. Payments of principal and interest on borrowings may leave us with insufficient cash resources to operate the apartment communities or pay distributions that are required to be paid in order for us to maintain our qualification as a REIT. We currently intend to limit our total debt to a range of approximately 45% to 55% of the undepreciated book value of our assets, although our charter and bylaws do not limit our debt levels. Circumstances may cause us to exceed that target from time-to-time. As of December 31, 2009, our ratio of debt to undepreciated book value was approximately 50%. Our Board of Directors can modify this policy at any time, which could allow us to become more highly leveraged and decrease our ability to make distributions to our shareholders. In addition, we must repay our debt upon maturity, and the inability to access debt or equity capital at attractive rates could adversely affect our financial condition and/or our funds from operations. We rely on FNMA and Freddie Mac, which we refer to as the Agencies, for the majority of our debt financing and have agreements with the Agencies and with other lenders that require us to comply with certain covenants, including maintaining adequate collateral that is subject to revaluation quarterly. The breach of any one of these covenants would place us in default with our lenders and may have serious consequences on our operations.

Interest rate hedging may be ineffective

We rely on the financial markets to refinance debt maturities, and also are heavily reliant on the Agencies, which provide credit or credit enhancement for approximately $1.3 billion of our outstanding debt as of December 31, 2009. The debt is provided under the terms of credit facilities with Prudential Mortgage

Debt level, refinancing and loan covenant risk may adverselyaffect our financial condition and operating results and

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Capital (credit-enhanced by FNMA) and Financial Federal (credit-enhanced by Freddie Mac). We pay fees to the credit facility providers and the Agencies plus interest which is based on the FNMA DMBS rate, and the Freddie Mac Reference Bill Rate. The Agencies have been placed into conservatorship by the U.S. Government (under the supervision of the Federal Housing Finance Agency), which has committed $200 billion of capital to each, if needed.

The interest rate market for the FNMA DMBS rate and the Freddie Mac Reference Bill Rate, both of which have been highly correlated with LIBOR interest rates, are also an important component of our liquidity and interest rate swap effectiveness. In our experience, the FNMA DMBS rate has historically averaged 16 basis points below three-month LIBOR, and the Freddie Mac Reference Bill rate has averaged 40 basis points below the associated LIBOR rate, but in the past 28 months the spreads increased significantly and have been more volatile than we have historically seen before recently contracting closer to more normal levels. We believe that the current market illiquidity is an anomaly and that the spreads and the volatility will return to more stable historic levels, but we cannot forecast when or if the uncertainty and volatility in the market may change. Continued unusual volatility over a period of time could cause us to lose hedge accounting treatment for our interest rate swaps, resulting in material changes to our consolidated statements of operations and balance sheet, and potentially cause a breach with one of our debt covenants.

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

We also rely on the credit of the counterparties that provide swaps to hedge the interest rate risk on our credit facilities. We use three major banks to provide nearly 80% of our swaps, JP Morgan Chase, Royal Bank of Canada, and Deutsche Bank, all of which have high investment grade ratings from Moody s and S&P. In the event that one of our swap providers should suffer a significant downgrade of its credit rating or fail, our swaps may become ineffective, in which case the value of the swap would be adjusted to value in the current period, possibly causing a substantial loss sufficient to cause a breach with one of our debt covenants.

One or more interest rate swap or cap counterparties could default, causing us significant financial exposure

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

Variable interest rates may adversely affect funds from operations

At December 31, 2009, effectively $263 million of our debt bore interest at a variable rate and was not hedged by interest rate swaps or caps. We may incur additional debt in the future that also bears interest at variable rates. Variable rate debt creates higher debt service requirements if market interest rates increase, which would adversely affect our funds from operations and the amount of cash available to pay distributions to shareholders. Our $1.0 billion secured credit facilities with Prudential Mortgage Capital, credit enhanced by FNMA, were predominately floating rate facilities during 2009. We also have credit facilities with Freddie Mac totaling $300 million that are variable rate facilities. At December 31, 2009, a total of $1.3 billion was outstanding under these facilities. These facilities represent the majority of the variable interest rates we were exposed to at December 31, 2009. Large portions of the interest rates on these facilities have been hedged by means of a number of interest rate swaps and caps. Upon the termination of these swaps and caps, we will be exposed to the risks of varying interest rates.

Losses from catastrophes may exceed our insurance coverage

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

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

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

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

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

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

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

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

We are dependent on key personnel

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

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

We intend to actively acquire and improve multifamily communities for rental operations. We may underestimate the costs necessary to bring an acquired community up to standards established for our intended market position. Additionally, to grow successfully, we must be able to apply our experience in managing our existing portfolio of apartment communities to a larger number of properties. We must also be able to integrate new management and operations personnel as our organization grows in size and complexity. Failures in either area will result in inefficiencies that could adversely affect our overall profitability.

We may not be able to sell communities when appropriate

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

Environmental problems are possible and can be costly

Federal, state and local laws and regulations relating to the protection of the environment may require a current or previous owner or operator of real estate to investigate and clean up hazardous or toxic substances

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or petroleum product releases at such community. The owner or operator may have to pay a governmental entity or third parties for property damage and for investigation and clean-up costs incurred by such parties in connection with the contamination. These laws typically impose clean-up responsibility and liability without regard to whether the owner or operator knew of or caused the presence of the contaminants. Even if more than one person may have been responsible for the contamination each person covered by the environmental laws may be held responsible for all of the clean-up costs incurred. In addition, third parties may sue the owner or operator of a site for damages and costs resulting from environmental contamination emanating from that site. All of our communities have been the subject of environmental assessments completed by qualified independent environmental consultant companies. These environmental assessments have not revealed, nor are we aware of, any environmental liability that we believe would have a material adverse effect on our business, results of operations, financial condition or liquidity. Over the past several years, there have been an increasing number of lawsuits against owners and managers of multifamily properties alleging personal injury and property damage caused by the presence of mold in residential real estate.

Some of these lawsuits have resulted in substantial monetary judgments or settlements. We cannot be assured that existing environmental assessments of our communities reveal all environmental liabilities, that any prior owner of any of our properties did not create a material environmental condition not known to us, or that a material environmental condition does not otherwise exist.

Our ownership limit restricts the transferability of our capital stock

Our charter limits ownership of our capital stock by any single shareholder to 9.9% of the value of all outstanding shares of our capital stock, both common and preferred. The charter also prohibits anyone from buying shares if the purchase would result in our losing REIT status. This could happen if a share transaction results in fewer than 100 persons owning all of our shares or in five or fewer persons, applying certain broad attribution rules of the Internal Revenue Code of 1986, as amended, or the Code, owning 50% or more of our shares. If you acquire shares in excess of the ownership limit or in violation of the ownership requirements of the Code for REITs, we:

- will consider the transfer to be null and void;
- will not reflect the transaction on our books;
- may institute legal action to enjoin the transaction;
- will not pay dividends or other distributions with respect to those shares;
- will not recognize any voting rights for those shares;
- will consider the shares held in trust for our benefit; and
- will either direct you to sell the shares and turn over any profit to us, or we will redeem the shares. If we redeem the shares, you will be paid a price equal to the lesser of:

1. the price you paid for the shares; or
2. the average of the last reported sales prices on the New York Stock Exchange on the ten trading days immediately preceding the date fixed for redemption by our Board of Directors.

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

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

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

Ownership Limit

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

Preferred Stock

Our charter authorizes our Board of Directors to issue up to 20,000,000 shares of preferred stock. The Board of Directors may establish the preferences and rights of any preferred shares issued. The issuance of preferred stock could have the effect of delaying or preventing someone from taking control of us, even if a change in control were in our shareholders best interests. Currently, we have 6,200,000 shares of 8.30% Series H Cumulative Redeemable Preferred Stock issued and outstanding.

Tennessee Anti-Takeover Statutes

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

Our investments in joint ventures may involve risks

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

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

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

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

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

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

We believe that the market value of a REIT s equity securities is based primarily upon the market s perception of the REIT s growth potential and its current and potential future cash distributions, and is secondarily based upon the real estate market value of the underlying assets. For that reason, our shares may trade at prices that are higher or lower than the net asset value per share. To the extent we retain operating cash flow for investment purposes, working capital reserves or other purposes, these retained funds, while increasing the value of our underlying assets, may not correspondingly increase the market price of our

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

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

our financial condition and operating performance and the performance of other similar companies;
actual or anticipated differences in our quarterly 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;
strategic decisions by us or our competitors, such as acquisitions, divestments, spin-offs, joint ventures, strategic investments or changes in business strategy;
the reputation of REITs generally and the reputation of REITs with portfolios similar to ours;
the attractiveness of the securities of REITs in comparison to securities issued by other entities (including securities issued by other real estate companies);
an increase in market interest rates, which may lead prospective investors to demand a higher distribution rate in relation to the price paid for our shares;
the passage of legislation or other regulatory developments that adversely affect us or our industry;
speculation in the press or investment community;
actions by institutional shareholders or hedge funds;
changes in accounting principles;
terrorist acts; and
general market conditions, including factors unrelated to our performance.

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

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

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

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

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

Failure to make required distributions would subject us to income taxation

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

85% of ordinary income for that year;
95% of capital gain net income for that year; and
100% of undistributed taxable income from prior years.

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We seek to acquire newer apartment communities and those with opportunities for repositioning through capital additions and management improvement located in the Sunbelt region of the United States that are primarily appealing to middle income residents with the potential for above average growth and return on investment. Approximately 76% of our apartment units are located in Georgia, Florida, Tennessee, and Texas markets. Our strategic focus is to provide our residents high quality apartment units in attractive community settings, characterized by extensive landscaping and attention to aesthetic detail. We utilize our experience and expertise in maintenance, landscaping, marketing and management to effectively reposition many of the apartment communities we acquire to raise occupancy levels and per unit average rents.

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The following table sets forth certain historical information for the apartment communities we owned at December 31, 2009:

	Location	Year Completed	Year Management Commenced	Number of Units	Approximate Rentable Area (Square Footage)	Average Unit Size (Square Footage)	Monthly Rent per Unit at December 31, 2009	Average Occupancy Percent at December 31, 2009	Encumbrances at December 31, 2009 Mortgage/ Bond Principal (000's)	Interest Rate	Matur Date
ned											
ge	Birmingham, AL	1986	1998	200	181,400	907	$699.93	92.50 %	$ (1)	(1)	(1)
n Place	Huntsville, AL	1987	1998	152	162,792	1,071	$622.16	94.08 %	$ (1)	(1)	(1)
Club e	Huntsville, AL	1989/98	1997	392	414,736	1,058	$699.47	95.66 %	$ (1)	(1)	(1)
Club ery	Montgomery, AL	1999	1998	208	230,880	1,110	$730.96	96.63 %	$ (1)	(1)	(1)
				952	**989,808**	**1,040**	**$694.10**	**94.96%**			
rest	Little Rock, AR	1987	1994	260	195,000	750	$665.55	96.92 %	$ (1)	(1)	(1)
ley	Little Rock, AR	1984	1996	240	183,120	763	$631.07	93.75 %	$ (1)	(1)	(1)
Creek I &	Little Rock, AR	1984/86	1997	308	320,936	1,042	$686.62	97.40 %	$ (1)	(1)	(1)
				808	**699,056**	**865**	**$663.34**	**96.16%**			
yon's	Phoenix, AZ	2007	2008	312	299,208	959	$790.40	93.27 %	$		
ch	Phoenix, AZ	2005	2006	480	437,280	911	$690.42	90.63 %	$		
Ranch	Gilbert, AZ	2007	2009	232	225,272	971	$798.80	91.81 %	$		
				1,024	**961,760**	**939**	**$745.44**	**91.70%**			
aks	Altamonte Springs, FL	1985	1996	288	234,144	813	$720.81	97.57 %	$ (1)	(1)	(1)
ks	Atlantic Beach, FL	1986	1995	120	93,240	777	$658.71	98.33 %	$ (1)	(1)	(1)
int	Brandon, FL	1989	2000	240	194,640	811	$781.02	96.25 %	$		
Club	Brandon, FL	1997/99	1997	440	516,120	1,173	$881.38	95.00 %	$ (2)	(2)	(2)
t Coral	Coral Springs, FL	1996	2004	480	528,480	1,101	$1,249.30	95.63 %	$ (6)	(6)	(6)
	Daytona Beach, FL	1986	1995	208	149,136	717	$679.18	94.71 %	$7,000 (9)	1.175 %(9)	10/1
Club le	Gainesville, FL	1999	1998	264	293,040	1,110	$854.73	98.86 %	$ (2)	(2)	(2)
Hawk	Jacksonville, FL	1987	1995	208	218,400	1,050	$762.25	98.08 %	$ (2)	(2)	(2)
		1987	1997	336	295,008	878	$762.71	95.24 %	$ (7)	(7)	(7)

Ridge at d	Jacksonville, FL												
	Jacksonville, FL	1985	1996	416	344,032	827	$693.45	95.43	%	$	(1)	(1)	(1)
e at sland	Jacksonville, FL	2003	2003	501	556,110	1,110	$869.38	96.61	%	$	(1)	(1)	(1)
Club lle	Jacksonville, FL	1989/96	1997	440	475,200	1,080	$831.57	92.50	%	$	(1)	(1)	(1)
Club	Jacksonville, FL	1998	1998	288	330,336	1,147	$858.01	97.22	%	$	(2)	(2)	(2)
tine I &	Jacksonville, FL	1987/2008	1995	524	423,392	808	$724.60	95.80	%	$13,235	(19)	(19)	(19)
ge at the	Jacksonville, FL	1985	1994	188	166,004	883	$699.79	94.15	%	$	(2)	(2)	(2)
ow	Jacksonville, FL	1986	1997	450	342,000	760	$666.02	96.22	%	$	(1)	(1)	(1)
Club	Lakeland, FL	1988/90	1997	464	505,296	1,089	$710.59	96.12	%	$	(1)	(1)	(1)
s at James	Melbourne, FL	1990	1995	256	238,592	932	$699.11	96.09	%	$	(2)	(2)	(2)
Park	Ocala, FL	1986/88	1997	480	485,280	1,011	$651.86	95.21	%	$6,805	(2)(3)	(2)(3)	(2)(3)

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Property	Location	Year Completed	Year Management Commenced	Number of Units	Approximate Rentable Area (Square Footage)	Average Unit Size (Square Footage)	Monthly Rent per Unit at December 31, 2009	Average Occupancy Percent at December 31, 2009	Encumbrances at December 31, 2009 Mortgage/ Bond Principal (000's)	Interest Rate	Maturity Date
Paddock Club Panama City	Panama City, FL	2000	1998	254	283,972	1,118	$882.27	94.09%	$ (2)	(2)	(2)
Paddock Club Tallahassee	Tallahassee, FL	1990/95	1997	304	329,232	1,083	$810.10	93.75%	$ (2)	(2)	(2)
Belmere	Tampa, FL	1984	1994	210	202,440	964	$777.32	98.10%	$ (1)	(1)	(1)
Links at Carrollwood	Tampa, FL	1980	1998	230	214,820	934	$831.90	97.83%	$ (1)	(1)	(1)
Village Oaks	Tampa, FL	2005	2008	226	260,804	1,154	$994.75	97.35%	$		
Park Crest at Innisbrook	Palm Harbor, FL	2000	2009	432	461,808	1,069	$894.98	95.37%	$		
				8,247	**8,141,526**	**987**	**$806.26**				