

POST PROPERTIES INC  
Form 10-Q  
August 08, 2012  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, DC 20549

**FORM 10-Q**

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2012

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the transition period from            to

Commission file numbers 1-12080 and 0-28226

**POST PROPERTIES, INC.**

**POST APARTMENT HOMES, L.P.**

(Exact name of registrant as specified in its charter)

Georgia	58-1550675
Georgia	58-2053632
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
4401 Northside Parkway, Suite 800, Atlanta, Georgia 30327	

(Address of principal executive offices -- zip code)

(404) 846-5000

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrants (1) have 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) have been subject to such filing requirements for the past 90 days.

Post Properties, Inc.	Yes	<input checked="" type="checkbox"/>	No	<input type="checkbox"/>
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Post Apartment Homes, L.P. Yes ☒ No ☐

Indicate by check mark whether the registrants have submitted electronically and posted on their 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 as the registrant was required to submit and post such files).

Post Properties, Inc. Yes ☒ No ☐

Post Apartment Homes, L.P. Yes ☒ No ☐

Indicate by check mark whether the registrants are large accelerated filers, accelerated filers, non-accelerated filers or smaller reporting company. See definition of accelerated filer, large accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Post Properties, Inc. Large Accelerated Filer ☒ Accelerated Filer ☐

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

Post Apartment Homes, Large Accelerated Filer ☐ Accelerated Filer ☐

L.P. Non-Accelerated Filer ☒ (Do not check if a smaller reporting company) Smaller Reporting Company ☐

Indicate by check mark whether the registrants are shell companies (as defined in Rule 12b-2 of the Exchange Act).

Post Properties, Inc. Yes ☐ No ☒

Post Apartment Homes, L.P. Yes ☐ No ☒

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

54,195,525 shares of common stock outstanding as of July 31, 2012.

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**EXPLANATORY NOTE**

This report combines the quarterly reports on Form 10-Q for the period ended June 30, 2012, of Post Properties, Inc. and Post Apartment Homes, L.P. Unless stated otherwise or the context otherwise requires, references to Post Properties or the Company mean Post Properties, Inc. and its controlled and consolidated subsidiaries. References to Post Apartment Homes or the Operating Partnership mean Post Apartment Homes, L.P. and its controlled and consolidated subsidiaries. The terms the Company, we, our and us refer to the Company or the Company and the Operating Partnership collectively, as the text requires.

The Company is a real estate investment trust ( REIT ) and the general partner of the Operating Partnership. As of June 30, 2012, the Company owned an approximate 99.7% interest in the Operating Partnership. The remaining 0.3% interests are owned by persons other than the Company.

Management believes that combining the two quarterly reports on Form 10-Q for the Company and the Operating Partnership provides the following benefits:

Combined reports better reflect how management and the analyst community view the business as a single operating unit;

Combined reports enhance investors understanding of the Company and the Operating Partnership by enabling them to view the business and its results as a whole and in the same manner as management;

Combined reports are more efficiently prepared by the Company and the Operating Partnership and result in time and cost efficiencies; and

Combined reports are more efficiently reviewed by investors and analysts by reducing the amount of duplicate disclosures. Management operates the Company and the Operating Partnership as one business. The management of the Company is comprised of the same members as the management of the Operating Partnership. These individuals are officers of the Company and employees of the Operating Partnership.

The Company believes it is important to understand the few differences between the Company and the Operating Partnership in the context of how these two entities operate as a consolidated company. The Company is a REIT, and its only material asset is its ownership of partnership interests of the Operating Partnership. As a result, the Company 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 all of the assets and indebtedness of the Company and retains the ownership interests in the Company's joint ventures. Except for net proceeds from public equity issuances by the Company, which are contributed to the Operating Partnership in exchange for partnership units, the Operating Partnership generates all remaining capital required by the Company's business. These sources include the Operating Partnership's operations and its direct or indirect incurrence of indebtedness.

There are a few differences in the disclosures for the Company and the Operating Partnership which are reflected and presented as such in the consolidated footnotes to the financial statements to this Form 10-Q. Noncontrolling interests and the presentation of equity are the main areas of difference between the consolidated financial statements of the Company and the Operating Partnership. The Company's consolidated statement of operations reflects a reduction to income for the noncontrolling interests held by the Operating Partnership's unitholders other than the Company (0.3% at June 30, 2012). This quarterly report on Form 10-Q presents the following separate financial information for both the Company and the Operating Partnership:

Consolidated financial statements;

The following information in the notes to the consolidated financial statements:

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Computation of earnings (loss) per share for the Company

Computation of earnings (loss) per unit for the Operating Partnership

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**POST PROPERTIES, INC.**

**POST APARTMENT HOMES, L.P.**

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**Table of Contents****POST PROPERTIES, INC.****CONSOLIDATED BALANCE SHEETS**

(In thousands, except per share data)

	June 30, 2012 (Unaudited)	December 31, 2011
<b>Assets</b>		
Real estate assets		
Land	\$ 302,392	\$ 299,720
Building and improvements	2,138,643	2,085,929
Furniture, fixtures and equipment	259,542	251,663
Construction in progress	112,466	94,981
Land held for future development	51,088	55,396
	2,864,131	2,787,689
Less: accumulated depreciation	(805,129)	(767,017)
For-sale condominiums	40,353	54,845
Total real estate assets	2,099,355	2,075,517
Investments in and advances to unconsolidated real estate entities	5,593	7,344
Cash and cash equivalents	51,628	13,084
Restricted cash	6,335	5,126
Deferred financing costs, net	9,982	6,381
Other assets	31,952	31,612
Total assets	\$ 2,204,845	\$ 2,139,064
<b>Liabilities and equity</b>		
Indebtedness	\$ 967,582	\$ 970,443
Accounts payable, accrued expenses and other	90,105	72,102
Investments in unconsolidated real estate entities	16,125	15,945
Dividends and distributions payable	13,563	11,692
Accrued interest payable	5,289	5,185
Security deposits and prepaid rents	10,292	9,334
Total liabilities	1,102,956	1,084,701
Redeemable common units	7,016	6,840
<b>Commitments and contingencies</b>		
<b>Equity</b>		
Company shareholders' equity		
Preferred stock, \$.01 par value, 20,000 authorized:		
8 1/2% Series A Cumulative Redeemable Shares, liquidation preference \$50 per share, 868 shares issued and outstanding	9	9
Common stock, \$.01 par value, 100,000 authorized:		
54,109 and 53,002 shares issued and 54,109 and 52,988 shares outstanding at June 30, 2012 and December 31, 2011, respectively	541	530
Additional paid-in-capital	1,092,014	1,053,612
Accumulated earnings	15,349	-
Accumulated other comprehensive income (loss)	(9,879)	(2,633)

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	1,098,034	1,051,518
Less common stock in treasury, at cost, 93 and 113 shares at June 30, 2012 and December 31, 2011, respectively	(3,089)	(4,000)
Total Company shareholders' equity	1,094,945	1,047,518
Noncontrolling interests - consolidated property partnerships	(72)	5
Total equity	1,094,873	1,047,523
Total liabilities and equity	\$ 2,204,845	\$ 2,139,064

The accompanying notes are an integral part of these consolidated financial statements.

**Table of Contents****POST PROPERTIES, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS**

(In thousands, except per share data)

(Unaudited)

	<b>Three months ended June 30,</b>		<b>Six months ended June 30,</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
<b>Revenues</b>				
Rental	\$ 77,081	\$ 70,499	\$ 152,736	\$ 139,592
Other property revenues	4,873	4,698	9,272	8,920
Other	206	227	428	443
<b>Total revenues</b>	<b>82,160</b>	<b>75,424</b>	<b>162,436</b>	<b>148,955</b>
<b>Expenses</b>				
Property operating and maintenance (exclusive of items shown separately below)	35,231	33,206	69,868	65,823
Depreciation	19,497	18,808	38,838	37,560
General and administrative	3,883	4,246	8,168	8,362
Investment and development	322	296	802	774
Other investment costs	306	455	612	949
<b>Total expenses</b>	<b>59,239</b>	<b>57,011</b>	<b>118,288</b>	<b>113,468</b>
<b>Operating income</b>	<b>22,921</b>	<b>18,413</b>	<b>44,148</b>	<b>35,487</b>
Interest income	288	516	339	608
Interest expense	(11,103)	(14,437)	(22,748)	(28,912)
Amortization of deferred financing costs	(698)	(721)	(1,359)	(1,368)
Net gains on condominium sales activities	8,530	5,432	15,434	6,176
Equity in income of unconsolidated real estate entities, net	495	346	6,941	555
Other income, net	737	285	581	301
Net loss on extinguishment of indebtedness	-	-	(301)	-
<b>Net income</b>	<b>21,170</b>	<b>9,834</b>	<b>43,035</b>	<b>12,847</b>
Noncontrolling interests - consolidated real estate entities	(35)	(58)	(41)	(47)
Noncontrolling interests - Operating Partnership	(56)	(30)	(115)	(29)
<b>Net income available to the Company</b>	<b>21,079</b>	<b>9,746</b>	<b>42,879</b>	<b>12,771</b>
Dividends to preferred shareholders	(922)	(922)	(1,844)	(2,611)
Preferred stock redemption costs	-	-	-	(1,757)
<b>Net income available to common shareholders</b>	<b>\$ 20,157</b>	<b>\$ 8,824</b>	<b>\$ 41,035</b>	<b>\$ 8,403</b>
<b>Per common share data - Basic</b>				
Net income available to common shareholders	\$ 0.37	\$ 0.18	\$ 0.77	\$ 0.17
Weighted average common shares outstanding - basic	53,773	49,875	53,430	49,460
<b>Per common share data - Diluted</b>				
Net income available to common shareholders	\$ 0.37	\$ 0.17	\$ 0.76	\$ 0.17



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Weighted average common shares outstanding - diluted	54,096	50,266	53,799	49,854
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The accompanying notes are an integral part of these consolidated financial statements.

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**POST PROPERTIES, INC.**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(In thousands)

(Unaudited)

	<b>Three months ended June 30,</b>		<b>Six months ended June 30,</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Net income	\$ 21,170	\$ 9,834	\$ 43,035	\$ 12,847
Net change in derivative financial instruments	(7,267)	-	(7,266)	-
Total comprehensive income	13,903	9,834	35,769	12,847
Comprehensive (income) loss attributable to noncontrolling interests:				
Consolidated real estate entities	(35)	(58)	(41)	(47)
Operating Partnership	(36)	(30)	(95)	(29)
Total Company comprehensive income	\$ 13,832	\$ 9,746	\$ 35,633	\$ 12,771

The accompanying notes are an integral part of these consolidated financial statements.

**Table of Contents****POST PROPERTIES, INC.****CONSOLIDATED STATEMENTS OF EQUITY AND ACCUMULATED EARNINGS**

(In thousands, except per share data)

(Unaudited)

	Preferred Stock	Common Stock	Additional Paid-in Capital	Accumulated Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Company Equity	Noncontrolling Interests - Consolidated Real Estate Entities	Total Equity
<b>2012 Equity &amp; Accum. Earnings, December 31, 2011</b>	\$ 9	\$ 530	\$ 1,053,612	\$ -	\$ (2,633)	\$ (4,000)	\$ 1,047,518	\$ 5	\$ 1,047,523
Comprehensive income (loss)	-	-	-	42,879	(7,246)	-	35,633	41	35,674
Sales of common stock, net	-	4	18,621	-	-	-	18,625	-	18,625
Employee stock purchase, stock option and other plan issuances	-	7	18,302	-	-	758	19,067	-	19,067
Conversion of redeemable common units for shares	-	-	438	-	-	153	591	-	591
Adjustment for ownership interest of redeemable common units	-	-	(382)	-	-	-	(382)	-	(382)
Stock-based compensation	-	-	1,423	-	-	-	1,423	-	1,423
Dividends to preferred shareholders	-	-	-	(1,844)	-	-	(1,844)	-	(1,844)
Dividends to common shareholders (\$0.47 per share)	-	-	-	(25,331)	-	-	(25,331)	-	(25,331)
Distributions to noncontrolling interests consolidated real estate entities	-	-	-	-	-	-	-	(118)	(118)
Adjustment to redemption value of redeemable common units	-	-	-	(355)	-	-	(355)	-	(355)

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<b>Equity &amp; Accum. Earnings, June 30, 2012</b>	\$ 9	\$ 541	\$ 1,092,014	\$ 15,349	\$ (9,879)	\$ (3,089)	\$ 1,094,945	\$ (72)	\$ 1,094,873
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<b>2011 Equity &amp; Accum. Earnings, December 31, 2010</b>	\$ 29	\$ 489	\$ 965,691	\$ 4,577	\$ -	\$ (3,696)	\$ 967,090	\$ 205	\$ 967,295
Comprehensive income (loss)	-	-	-	12,771	-	-	12,771	47	12,818
Sales of common stock, net	-	10	38,223	-	-	-	38,233	-	38,233
Employee stock purchase, stock option and other plan issuances	-	5	14,113	-	-	370	14,488	-	14,488
Conversion of redeemable common units for shares	-	-	321	-	-	-	321	-	321
Adjustment for ownership interest of redeemable common units	-	-	(225)	-	-	-	(225)	-	(225)
Redemption of preferred stock	(20)	-	(49,613)	-	-	-	(49,633)	-	(49,633)
Stock-based compensation	-	-	1,273	-	-	-	1,273	-	1,273
Dividends to preferred shareholders	-	-	-	(2,611)	-	-	(2,611)	-	(2,611)
Dividends to common shareholders (\$0.40 per share)	-	-	(5,297)	(14,737)	-	-	(20,034)	-	(20,034)
Distributions to noncontrolling interests consolidated real estate entities	-	-	-	-	-	-	-	(133)	(133)
Adjustment to redemption value of redeemable common units	-	-	(564)	-	-	-	(564)	-	(564)

<b>Equity &amp; Accum. Earnings, June 30, 2011</b>	\$ 9	\$ 504	\$ 963,922	\$ -	\$ -	\$ (3,326)	\$ 961,109	\$ 119	\$ 961,228
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The accompanying notes are an integral part of these consolidated financial statements.

**Table of Contents****POST PROPERTIES, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In thousands)

(Unaudited)

	Six months ended June 30,	
	2012	2011
<b>Cash Flows From Operating Activities</b>		
Net income	\$ 43,035	\$ 12,847
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	38,838	37,560
Amortization of deferred financing costs	1,359	1,368
Gains on sales of real estate assets, net	(15,434)	(6,176)
Other, net	691	665
Equity in income of unconsolidated entities, net	(6,941)	(555)
Distributions of earnings of unconsolidated entities	1,802	1,080
Deferred compensation	63	48
Stock-based compensation	1,427	1,278
Net loss on extinguishment of indebtedness	301	-
Changes in assets, decrease in:		
Other assets	(1,774)	(450)
Changes in liabilities, increase (decrease) in:		
Accrued interest payable	104	(50)
Accounts payable and accrued expenses	4,798	1,065
Security deposits and prepaid rents	(251)	(251)
Net cash provided by operating activities	68,018	48,429
<b>Cash Flows From Investing Activities</b>		
Construction and acquisition of real estate assets	(64,959)	(36,965)
Proceeds from sales of real estate assets	39,981	32,765
Capitalized interest	(3,000)	(1,006)
Property capital expenditures	(12,313)	(10,812)
Corporate additions and improvements	(445)	(486)
Distributions from unconsolidated entities	7,016	-
Note receivable collections and other investments	760	434
Net cash used in investing activities	(32,960)	(16,070)
<b>Cash Flows From Financing Activities</b>		
Lines of credit proceeds	94,899	24,523
Lines of credit repayments	(229,899)	(24,523)
Proceeds from indebtedness	230,000	-
Payments on indebtedness	(97,861)	(1,371)
Payments of financing costs and other	(5,152)	(3,972)
Proceeds from sales of common stock	18,625	38,233
Proceeds from employee stock purchase and stock options plans	18,365	13,785
Redemption of preferred stock	-	(49,633)
Distributions to noncontrolling interests real estate entities	(118)	(133)
Distributions to noncontrolling interests common unitholders	(67)	(68)
Dividends paid to preferred shareholders	(1,844)	(2,611)
Dividends paid to common shareholders	(23,462)	(19,723)
Net cash provided by (used in) financing activities	3,486	(25,493)

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Net increase in cash and cash equivalents	38,544	6,866
Cash and cash equivalents, beginning of period	13,084	22,089
Cash and cash equivalents, end of period	\$ 51,628	\$ 28,955

The accompanying notes are an integral part of these consolidated financial statements.

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**POST APARTMENT HOMES, L.P.**  
**CONSOLIDATED BALANCE SHEETS**

(In thousands)

	June 30, 2012 (Unaudited)	December 31, 2011
<b>Assets</b>		
Real estate assets		
Land	\$ 302,392	\$ 299,720
Building and improvements	2,138,643	2,085,929
Furniture, fixtures and equipment	259,542	251,663
Construction in progress	112,466	94,981
Land held for future development	51,088	55,396
	2,864,131	2,787,689
Less: accumulated depreciation	(805,129)	(767,017)
For-sale condominiums	40,353	54,845
<b>Total real estate assets</b>	<b>2,099,355</b>	<b>2,075,517</b>
Investments in and advances to unconsolidated real estate entities	5,593	7,344
Cash and cash equivalents	51,628	13,084
Restricted cash	6,335	5,126
Deferred financing costs, net	9,982	6,381
Other assets	31,952	31,612
<b>Total assets</b>	<b>\$ 2,204,845</b>	<b>\$ 2,139,064</b>
<b>Liabilities and equity</b>		
Indebtedness	\$ 967,582	\$ 970,443
Accounts payable, accrued expenses and other	90,105	72,102
Investments in unconsolidated real estate entities	16,125	15,945
Distributions payable	13,563	11,692
Accrued interest payable	5,289	5,185
Security deposits and prepaid rents	10,292	9,334
<b>Total liabilities</b>	<b>1,102,956</b>	<b>1,084,701</b>
Redeemable common units	7,016	6,840
<b>Commitments and contingencies</b>		
<b>Equity</b>		
Operating Partnership equity		
Preferred units	43,392	43,392
Common units		
General partner	12,210	11,662
Limited partner	1,049,222	995,097
Accumulated other comprehensive income (loss)	(9,879)	(2,633)
<b>Total Operating Partnership equity</b>	<b>1,094,945</b>	<b>1,047,518</b>
Noncontrolling interests consolidated property partnerships	(72)	5
<b>Total equity</b>	<b>1,094,873</b>	<b>1,047,523</b>

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Total liabilities and equity	\$ 2,204,845	\$ 2,139,064
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The accompanying notes are an integral part of these consolidated financial statements.



**Table of Contents****POST APARTMENT HOMES, L.P.****CONSOLIDATED STATEMENTS OF OPERATIONS**

(In thousands, except per unit data)

(Unaudited)

	<b>Three months ended June 30,</b>		<b>Six months ended June 30,</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
<b>Revenues</b>				
Rental	\$ 77,081	\$ 70,499	\$ 152,736	\$ 139,592
Other property revenues	4,873	4,698	9,272	8,920
Other	206	227	428	443
<b>Total revenues</b>	<b>82,160</b>	<b>75,424</b>	<b>162,436</b>	<b>148,955</b>
<b>Expenses</b>				
Property operating and maintenance (exclusive of items shown separately below)	35,231	33,206	69,868	65,823
Depreciation	19,497	18,808	38,838	37,560
General and administrative	3,883	4,246	8,168	8,362
Investment and development	322	296	802	774
Other investment costs	306	455	612	949
<b>Total expenses</b>	<b>59,239</b>	<b>57,011</b>	<b>118,288</b>	<b>113,468</b>
<b>Operating income</b>	<b>22,921</b>	<b>18,413</b>	<b>44,148</b>	<b>35,487</b>
Interest income	288	516	339	608
Interest expense	(11,103)	(14,437)	(22,748)	(28,912)
Amortization of deferred financing costs	(698)	(721)	(1,359)	(1,368)
Net gains on condominium sales activities	8,530	5,432	15,434	6,176
Equity in income of unconsolidated real estate entities, net	495	346	6,941	555
Other income, net	737	285	581	301
Net loss on extinguishment of indebtedness	-	-	(301)	-
<b>Net income</b>	<b>21,170</b>	<b>9,834</b>	<b>43,035</b>	<b>12,847</b>
Noncontrolling interests consolidated real estate entities	(35)	(58)	(41)	(47)
<b>Net income available to the Operating Partnership</b>	<b>21,135</b>	<b>9,776</b>	<b>42,994</b>	<b>12,800</b>
Distributions to preferred unitholders	(922)	(922)	(1,844)	(2,611)
Preferred unit redemption costs	-	-	-	(1,757)
<b>Net income available to common unitholders</b>	<b>\$ 20,213</b>	<b>\$ 8,854</b>	<b>\$ 41,150</b>	<b>\$ 8,432</b>
<b>Per common unit data Basic</b>				
Net income available to common unitholders	\$ 0.37	\$ 0.18	\$ 0.77	\$ 0.17
Weighted average common units outstanding basic	53,923	50,044	53,581	49,630
<b>Per common unit data Diluted</b>				
Net income available to common unitholders	\$ 0.37	\$ 0.17	\$ 0.76	\$ 0.17
Weighted average common units outstanding diluted	54,246	50,435	53,950	50,024

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The accompanying notes are an integral part of these consolidated financial statements.

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**POST APARTMENT HOMES, L.P.**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(In thousands)

(Unaudited)

	<b>Three months ended June 30,</b>		<b>Six months ended June 30,</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Net income	\$ 21,170	\$ 9,834	\$ 43,035	\$ 12,847
Net change in derivative financial instruments	(7,267)		(7,266)	
Total comprehensive income	13,903	9,834	35,769	12,847
Comprehensive (income) loss attributable to noncontrolling interests:				
Consolidated real estate entities	(35)	(58)	(41)	(47)
Total Operating Partnership comprehensive income	\$ 13,868	\$ 9,776	\$ 35,728	\$ 12,800

The accompanying notes are an integral part of these consolidated financial statements.

**Table of Contents****POST APARTMENT HOMES, L.P.****CONSOLIDATED STATEMENTS OF EQUITY**

(In thousands, except per unit data)

(Unaudited)

	Preferred Units	Common Units General Partner	Limited Partners	Accumulated Other Comprehensive Income (Loss)	Total Operating Partnership Equity	Noncontrolling Interests - Consolidated Real Estate Entities	Total Equity
<b>2012</b>							
<b>Equity, December 31, 2011</b>	\$ 43,392	\$ 11,662	\$ 995,097	\$ (2,633)	\$ 1,047,518	\$ 5	\$ 1,047,523
Comprehensive income (loss)	1,844	411	40,624	(7,246)	35,633	41	35,674
Contributions from the Company related to sales of Company common stock		186	18,439		18,625		18,625
Contributions from the Company related to employee stock purchase, stock option and other plans		191	18,876		19,067		19,067
Conversion of redeemable common units			591		591		591
Adjustment for ownership interest of redeemable common units			(382)		(382)		(382)
Equity-based compensation		14	1,409		1,423		1,423
Distributions to preferred unitholders	(1,844)				(1,844)		(1,844)
Distributions to common unitholders (\$0.47 per unit)		(254)	(25,077)		(25,331)		(25,331)
Distributions to noncontrolling interests - consolidated real estate entities						(118)	(118)
Adjustment to redemption value of redeemable common units			(355)		(355)		(355)
<b>Equity, June 30, 2012</b>	\$ 43,392	\$ 12,210	\$ 1,049,222	\$ (9,879)	\$ 1,094,945	\$ (72)	\$ 1,094,873
<b>2011</b>							
<b>Equity, December 31, 2010</b>	\$ 92,963	\$ 10,354	\$ 863,773	\$	\$ 967,090	\$ 205	\$ 967,295
Comprehensive income (loss)	2,611	102	10,058		12,771	47	12,818
Contributions from the Company related to sales of Company common stock		382	37,851		38,233		38,233
Contributions from the Company related to employee stock purchase, stock option and other plans		145	14,343		14,488		14,488
Conversion of redeemable common units			321		321		321
Adjustment for ownership interest of redeemable common units			(225)		(225)		(225)
Redemption of preferred units	(49,571)		(62)		(49,633)		(49,633)
Equity-based compensation		13	1,260		1,273		1,273
Distributions to preferred unitholders	(2,611)				(2,611)		(2,611)
Distributions to common unitholders (\$0.40 per unit)		(201)	(19,833)		(20,034)		(20,034)
Distributions to noncontrolling interests - consolidated real estate entities						(133)	(133)
Adjustment to redemption value of redeemable common units			(564)		(564)		(564)
<b>Equity, June 30, 2011</b>	\$ 43,392	\$ 10,795	\$ 906,922	\$	\$ 961,109	\$ 119	\$ 961,228

The accompanying notes are an integral part of these consolidated financial statements.



**Table of Contents****POST APARTMENT HOMES, L.P.****CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In thousands)

(Unaudited)

	Six months ended June 30,	
	2012	2011
<b>Cash Flows From Operating Activities</b>		
Net income	\$ 43,035	\$ 12,847
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	38,838	37,560
Amortization of deferred financing costs	1,359	1,368
Gains on sales of real estate assets, net	(15,434)	(6,176)
Other, net	691	665
Equity in income of unconsolidated entities, net	(6,941)	(555)
Distributions of earnings of unconsolidated entities	1,802	1,080
Deferred compensation	63	48
Equity-based compensation	1,427	1,278
Net loss on extinguishment of indebtedness	301	
Changes in assets, decrease in:		
Other assets	(1,774)	(450)
Changes in liabilities, increase (decrease) in:		
Accrued interest payable	104	(50)
Accounts payable and accrued expenses	4,798	1,065
Security deposits and prepaid rents	(251)	(251)
Net cash provided by operating activities	68,018	48,429
<b>Cash Flows From Investing Activities</b>		
Construction and acquisition of real estate assets	(64,959)	(36,965)
Proceeds from sales of real estate assets	39,981	32,765
Capitalized interest	(3,000)	(1,006)
Property capital expenditures	(12,313)	(10,812)
Corporate additions and improvements	(445)	(486)
Distributions from unconsolidated entities	7,016	
Note receivable collections and other investments	760	434
Net cash used in investing activities	(32,960)	(16,070)
<b>Cash Flows From Financing Activities</b>		
Lines of credit proceeds	94,899	24,523
Lines of credit repayments	(229,899)	(24,523)
Proceeds from indebtedness	230,000	
Payments on indebtedness	(97,861)	(1,371)
Payments of financing costs and other	(5,152)	(3,972)
Contributions from the Company related to stock sales, employee stock purchase and stock option plans	36,990	52,018
Redemption of preferred units		(49,633)
Distributions to noncontrolling interests real estate entities	(118)	(133)
Distributions to noncontrolling interests non-Company common unitholders	(67)	(68)
Distributions to preferred unitholders	(1,844)	(2,611)
Distributions to common unitholders	(23,462)	(19,723)
Net cash provided by (used in) financing activities	3,486	(25,493)

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Net increase in cash and cash equivalents	38,544	6,866
Cash and cash equivalents, beginning of period	13,084	22,089
Cash and cash equivalents, end of period	\$ 51,628	\$ 28,955

The accompanying notes are an integral part of these consolidated financial statements.

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### **POST PROPERTIES, INC. AND POST APARTMENT HOMES, L.P.**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited, in thousands, except per share or unit and apartment unit data)

## **1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES**

### **Organization**

Post Properties, Inc. (the **Company**) and its subsidiaries develop, own and manage upscale multi-family apartment communities in selected markets in the United States. The Company through its wholly-owned subsidiaries is the sole general partner, a limited partner and owns a majority interest in Post Apartment Homes, L.P. (the **Operating Partnership**), a Georgia limited partnership. The Operating Partnership, through its operating divisions and subsidiaries conducts substantially all of the on-going operations of the Company, a publicly traded corporation which operates as a self-administered and self-managed real estate investment trust (**REIT**). As used herein, the term **Company** includes Post Properties, Inc. and its subsidiaries, including Post Apartment Homes, L.P., unless the context indicates otherwise.

The Company has elected to qualify and operate as a self-administered and self-managed REIT for federal income tax purposes. A REIT is a legal entity which holds real estate interests and is generally not subject to federal income tax on the income it distributes to its shareholders. The Operating Partnership is governed under the provisions of a limited partnership agreement, as amended. Under the provisions of the limited partnership agreement, as amended, Operating Partnership net profits, net losses and cash flow (after allocations to preferred ownership interests) are allocated to the partners in proportion to their common ownership interests. Cash distributions from the Operating Partnership shall be, at a minimum, sufficient to enable the Company to satisfy its annual dividend requirements to maintain its REIT status under the Internal Revenue Code of 1986, as amended.

At June 30, 2012, the Company had interests in 21,622 apartment units in 58 communities, including 1,471 apartment units in four communities held in unconsolidated entities and 1,810 apartment units at six communities currently under development or in lease-up. The Company is also selling luxury for-sale condominium homes in two communities through a taxable REIT subsidiary. At June 30, 2012, approximately 33.4%, 23.8%, 13.0% and 10.7% (on a unit basis) of the Company's operating communities were located in the Atlanta, Georgia, Dallas, Texas, the greater Washington, D.C. and Tampa, Florida metropolitan areas, respectively.

At June 30, 2012, the Company had outstanding 54,109 shares of common stock and owned the same number of units of common limited partnership interests (**Common Units**) in the Operating Partnership, representing a 99.7% ownership interest in the Operating Partnership. Common Units held by persons other than the Company totaled 143 at June 30, 2012 and represented a 0.3% common minority interest in the Operating Partnership. Each Common Unit may be redeemed by the holder thereof for either one share of Company common stock or cash equal to the fair market value thereof at the time of redemption, at the option, but outside the control, of the Operating Partnership. The Operating Partnership presently anticipates that it will cause shares of common stock to be issued in connection with each such redemption rather than paying cash (as has been done in all redemptions to date). With each redemption of outstanding Common Units for Company common stock, the Company's percentage ownership interest in the Operating Partnership will increase. In addition, whenever the Company issues shares of common stock, the Company will contribute any net proceeds therefrom to the Operating Partnership and the Operating Partnership will issue an equivalent number of Common Units to the Company. The Company's weighted average common ownership interest in the Operating Partnership was 99.7% for the three and six months ended June 30, 2012 and 2011.

### **Basis of presentation**

The accompanying unaudited financial statements have been prepared by the Company's management in accordance with generally accepted accounting principles for interim financial information and applicable rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and disclosures required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting only of normally recurring adjustments) considered necessary for a fair presentation have been included. The results of operations for the three and six months ended June 30, 2012 are not necessarily indicative of the results that may be expected for the full year. These financial statements should be read in conjunction with the Company's audited financial statements and notes thereto included in its Annual Report on Form 10-K for the year ended December 31, 2011.



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The accompanying consolidated financial statements include the consolidated accounts of the Company, the Operating Partnership and their wholly owned subsidiaries. The Company also consolidates other entities in which it has a controlling financial interest or entities where it is determined to be the primary beneficiary under ASC Topic 810, Consolidation. Under ASC Topic 810, variable interest entities ( VIEs ) are generally entities that lack sufficient equity to finance their activities without additional financial support from other parties or whose equity holders lack adequate decision making ability. The primary beneficiary is required to consolidate a VIE for financial reporting purposes. The application of ASC Topic 810 requires management to make significant estimates and

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### **POST PROPERTIES, INC. AND POST APARTMENT HOMES, L.P.**

#### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited, in thousands, except per share or unit and apartment unit data)

judgments about the Company's and its other partners' rights, obligations and economic interests in such entities. For entities in which the Company has less than a controlling financial interest or entities where it is not deemed to be the primary beneficiary, the entities are accounted for using the equity method of accounting. Accordingly, the Company's share of the net earnings or losses of these entities is included in consolidated net income. All significant inter-company accounts and transactions have been eliminated in consolidation. The noncontrolling interest of common unitholders (also referred to as Redeemable Common Units) in the operations of the Operating Partnership is calculated based on the weighted average unit ownership during the period.

#### **Revenue recognition**

Residential properties are leased under operating leases with terms of generally one year or less. Rental revenues from residential leases are recognized on the straight-line method over the approximate life of the leases, which is generally one year. The recognition of rental revenues from residential leases when earned has historically not been materially different from rental revenues recognized on a straight-line basis.

Under the terms of residential leases, the residents of the Company's residential communities are obligated to reimburse the Company for certain utility usage, water and electricity (at selected properties), where the Company is the primary obligor to the public utility entity. These utility reimbursements from residents are reflected as other property revenues in the consolidated statements of operations.

Sales and the associated gains or losses of real estate assets and for-sale condominiums are recognized in accordance with the provisions of ASC Topic 360-20, Property, Plant and Equipment—Real Estate Sales. The Company accounts for each condominium project under either the Deposit Method or the Percentage of Completion Method, based on a specific evaluation of the factors specified in ASC Topic 360-20. The factors used to determine the appropriate accounting method are the legal commitment of the purchaser in the real estate contract, whether the construction of the project is beyond a preliminary phase, whether sufficient units have been contracted to ensure the project will not revert to a rental project, the ability to reasonably estimate the aggregate project sale proceeds and aggregate project costs and the determination that the buyer has made an adequate initial and continuing cash investment under the contract in accordance with ASC Topic 360-20. As of June 30, 2012, all condominium communities are accounted for under the Deposit Method. Under ASC Topic 360-20, the Company uses the relative sales value method to allocate costs and recognize profits from condominium sales. Under the relative sales value method, estimates of aggregate project revenues and aggregate project costs are used to determine the allocation of project cost of sales and the resulting profit in each accounting period. In subsequent periods, cumulative project cost of sale allocations and the resulting profits are adjusted to reflect changes in the actual and estimated costs and revenues of each project.

#### **Cost capitalization**

For communities under development or rehabilitation, the Company capitalizes interest, real estate taxes, and certain internal personnel and associated costs associated with the development and construction activity. Interest is capitalized to projects under development or construction based upon the weighted average cumulative project costs for each month multiplied by the Company's weighted average borrowing costs, expressed as a percentage. Weighted average borrowing costs include the costs of the Company's fixed rate secured and unsecured borrowings and the variable rate unsecured borrowings under its line of credit facilities. The weighted average borrowing costs, expressed as a percentage, were 5.6% and 6.0% for the six months ended June 30, 2012 and 2011, respectively. Internal development and construction personnel and associated costs are capitalized to projects under development or construction based upon the effort associated with such projects. Aggregate internal development and construction personnel and associated costs capitalized to projects under development or construction were \$913 and \$627 for the three months and \$1,719 and \$1,096 for the six months ended June 30, 2012 and 2011, respectively. The Company treats each unit in an apartment community separately for cost accumulation, capitalization and expense recognition purposes. Prior to the completion of rental and condominium units, interest and other construction costs are capitalized and reflected on the balance sheet as construction in progress. The Company ceases the capitalization of such costs as the residential units in a community become substantially complete and available for occupancy or sale. This results in a proration of costs between amounts that are capitalized and expensed as the residential units in apartment and condominium development communities become available for occupancy or sale. In addition, prior to the completion of rental units, the

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Company expenses as incurred substantially all operating expenses (including pre-opening marketing as well as property management and leasing personnel expenses) of such rental communities. Prior to the completion and closing of condominium units, the Company expenses all sales and marketing costs related to such units.

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**POST PROPERTIES, INC. AND POST APARTMENT HOMES, L.P.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited, in thousands, except per share or unit and apartment unit data)

**Real estate assets, depreciation and impairment**

Real estate assets are stated at the lower of depreciated cost or fair value, if deemed impaired. Major replacements and betterments are capitalized and depreciated over their estimated useful lives. Depreciation is computed on a straight-line basis over the useful lives of the properties (buildings and components, 40 years; other building and land improvements 20 years; furniture, fixtures and equipment 5-10 years).

The Company continually evaluates the recoverability of the carrying value of its real estate assets using the methodology prescribed in ASC Topic 360, Property, Plant and Equipment. Factors considered by management in evaluating impairment of its existing real estate assets held for investment include significant declines in property operating profits, annually recurring property operating losses and other significant adverse changes in general market conditions that are considered permanent in nature. Under ASC Topic 360, a real estate asset held for investment is not considered impaired if the undiscounted, estimated future cash flows of an asset (both the annual estimated cash flow from future operations and the estimated cash flow from the theoretical sale of the asset) over its estimated holding period are in excess of the asset's net book value at the balance sheet date. If any real estate asset held for investment is considered impaired, a loss is provided to reduce the carrying value of the asset to its estimated fair value. In addition, for-sale condominium units completed and ready for their intended use are evaluated for impairment using the methodology for assets held for sale (using discounted projected future cash flows).

The Company periodically classifies real estate assets as held for sale. An asset is classified as held for sale after the approval of the Company's board of directors and after an active program to sell the asset has commenced. Upon the classification of a real estate asset as held for sale, the carrying value of the asset is reduced to the lower of its net book value or its estimated fair value, less costs to sell the asset. Subsequent to the classification of assets as held for sale, no further depreciation expense is recorded. Real estate assets held for sale are stated separately on the accompanying consolidated balance sheets. Upon a decision to no longer market an asset for sale, the asset is classified as an operating asset and depreciation expense is reinstated. As of June 30, 2012, there were no apartment communities held for sale.

For condominium communities, the operating results and associated gains and losses are reflected in continuing operations (see discussion under revenue recognition above), and the net book value of the condominium assets is reflected separately on the consolidated balance sheet in the caption titled, For-sale condominiums.

**Derivative financial instruments**

The Company accounts for derivative financial instruments at fair value under the provisions of ASC Topic 815, Derivatives and Hedging. In conjunction with its implementation of updates to the fair value measurements guidance, the Company made an accounting policy election as of January 1, 2012 to measure derivative financial instruments subject to master netting agreements on a net basis. The Company uses derivative financial instruments, primarily interest rate swap arrangements to manage or hedge its exposure to interest rates changes. Under ASC Topic 815, derivative instruments qualifying as hedges of specific cash flows are recorded on the balance sheet at fair value with an offsetting increase or decrease to accumulated other comprehensive income, an equity account, until the hedged transactions are recognized in earnings. Quarterly, the Company evaluates the effectiveness of its cash flow hedges. Any ineffective portion of cash flow hedges are recognized immediately in earnings.

**Fair value measurements**

The Company applies the guidance in ASC Topic 820, Fair Value Measurements and Disclosures, to the valuation of real estate assets recorded at fair value, if any, to its impairment valuation analysis of real estate assets, to its disclosure of the fair value of financial instruments, principally indebtedness and to its derivative financial instruments. Fair value disclosures required under ASC Topic 820 are summarized in note 8 utilizing the following hierarchy:

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Level 1 Quoted prices in active markets for identical assets or liabilities that are accessible at the measurement date.

Level 2 Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly.

Level 3 Unobservable inputs for the assets or liability.

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(Unaudited, in thousands, except per share or unit and apartment unit data)

**Recently issued and adopted ASC guidance**

The Company adopted new guidance in ASC Topic 220, Comprehensive Income, related to the presentation of comprehensive income as of December 31, 2011. The new guidance requires the presentation of the components of comprehensive income in one continuous statement or in two separate but consecutive statements. The Company has presented a separate statement of comprehensive income in its consolidated financial statements for all periods presented. The adoption of this guidance did not have a material effect on the Company's results of operations or financial condition.

**Supplemental cash flow information**

Supplemental cash flow information for the six months ended June 30, 2012 and 2011 is as follows:

	<b>Six months ended June 30,</b>	
	<b>2012</b>	<b>2011</b>
Interest paid, including interest capitalized	\$ 25,644	\$ 29,968
Income tax payments (refunds), net	70	705
<b>Non-cash investing and financing activities:</b>		
Dividends and distributions payable	13,563	10,124
Conversions of redeemable common units	591	321
Common stock 401k matching contribution	639	655
Construction cost accruals, increase (decrease)	6,440	(3,332)
Adjustments to equity related to redeemable common units, net	(737)	(789)

**2. REAL ESTATE ACTIVITY****Acquisitions / Dispositions**

The Company did not acquire any apartment communities during the six months ended June 30, 2012 or 2011. Other than the sale of an apartment community held by an unconsolidated entity during the first quarter of 2012 (see note 3), there were no other sales of apartment communities or land parcels during the six months ended June 30, 2012 and 2011. At June 30, 2012, the Company did not have any apartment communities or land parcels classified as held for sale.

In July 2012, the Company acquired a 360-unit apartment community, including approximately 7,612 square feet of retail space, located in Charlotte, North Carolina for a purchase price of \$74,000.

**Condominium activities**

At June 30, 2012, the Company was selling condominium homes in two wholly owned condominium communities. The Company's condominium community in Austin, Texas (the Austin Condominium Project), originally consisting of 148 condominium units, had an aggregate carrying value of \$29,956 at June 30, 2012. The Austin Condominium Project commenced closings of condominium units in the second quarter of 2010. The Company's condominium community in Atlanta, Georgia (the Atlanta Condominium Project), originally consisting of 129 condominium units, had an aggregate carrying value of \$13,397 at June 30, 2012. The Atlanta Condominium Project commenced closings of condominium units in the fourth quarter of 2010. These amounts were included in the accompanying balance sheet under the caption,

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For-sale condominiums.

The revenues, costs and expenses associated with consolidated condominium activities for the three and six months ended June 30, 2012 and 2011 were as follows:

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Condominium revenues	\$ 22,945	\$ 19,090	\$ 40,526	\$ 32,765
Condominium costs and expenses	(14,415)	(13,658)	(25,704)	(26,589)
Gains on sales of condominiums, before income taxes	8,530	5,432	14,822	6,176
Income tax benefit	-	-	612	-
Net gains on sales of condominiums	\$ 8,530	\$ 5,432	\$ 15,434	\$ 6,176

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(Unaudited, in thousands, except per share or unit and apartment unit data)

The Company closed 26 and 18 condominium homes for the three months and 45 and 30 condominium home for the six months ended June 30, 2012 and 2011, respectively, at these condominium communities. For the six months ended June 30, 2012, the Company recognized an income tax benefit of \$612 related to the recovery of income taxes paid in prior years by the Company's taxable REIT subsidiaries (see note 12).

**3. INVESTMENTS IN UNCONSOLIDATED REAL ESTATE ENTITIES**

At June 30, 2012, the Company held investments in various individual limited liability companies (the Apartment LLCs) with institutional investors that own four apartment communities, including three communities located in Atlanta, Georgia and one community located in Washington, D.C. The Company has a 25% to 35% equity interest in these Apartment LLCs.

The Company accounts for its investments in the Apartment LLCs using the equity method of accounting. At June 30, 2012 and December 31, 2011, the Company's investment in the 35% owned Apartment LLCs totaled \$5,593 and \$7,344, respectively, excluding the credit investments discussed below. The excess of the Company's investment over its equity in the underlying net assets of the Apartment LLC holding the Washington, D.C. community was approximately \$2,876 at June 30, 2012. The excess investment related to this Apartment LLC is being amortized as a reduction to earnings on a straight-line basis over the lives of the related assets. The Company's investment in the 25% owned Apartment LLCs at June 30, 2012 and December 31, 2011 reflects a credit investment of \$16,125 and \$15,945, respectively. These credit balances resulted from distribution of financing proceeds in excess of the Company's historical cost upon the formation of the Apartment LLCs and are reflected in consolidated liabilities on the Company's consolidated balance sheet. The operating results of the Company include its allocable share of net income from the investments in the Apartment LLCs. The Company provides property and asset management services to the Apartment LLCs for which it earns fees.

A summary of financial information for the Apartment LLCs in the aggregate is as follows:

	June 30, 2012	December 31, 2011
Apartment LLCs - Balance Sheet Data		
Real estate assets, net of accumulated depreciation of \$35,290 and \$32,780 at June 30, 2012 and December 31, 2011, respectively	\$ 215,421	\$ 217,443
Assets held for sale, net	-	28,846
Cash and other	7,117	6,526
 Total assets	 \$ 222,538	 \$ 252,815
 Mortgage notes payable	 \$ 177,723	 \$ 206,495
Other liabilities	3,299	2,737
 Total liabilities	 181,022	 209,232
Members' equity	41,516	43,583
 Total liabilities and members' equity	 \$ 222,538	 \$ 252,815
 Company's equity investment in Apartment LLCs (1)	 \$ (10,532)	 \$ (8,601)



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- (1) At June 30, 2012 and December 31, 2011, the Company's equity investment includes its credit investments of \$16,125 and \$15,945, respectively, discussed above.

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(Unaudited, in thousands, except per share or unit and apartment unit data)

Apartment LLCs - Income Statement Data	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
<b>Revenues</b>				
Rental	\$ 6,152	\$ 5,842	\$ 12,194	\$ 11,611
Other property revenues	501	483	937	909
<b>Total revenues</b>	<b>6,653</b>	<b>6,325</b>	<b>13,131</b>	<b>12,520</b>
<b>Expenses</b>				
Property operating and maintenance	2,555	2,331	5,082	4,794
Depreciation and amortization	1,428	1,480	3,033	2,954
Interest	2,258	2,555	4,625	5,081
<b>Total expenses</b>	<b>6,241</b>	<b>6,366</b>	<b>12,740</b>	<b>12,829</b>
Net loss from continuing operations	412	(41)	391	(309)
Gain (loss) from discontinued operations	-	(42)	21,607	(99)
<b>Net income (loss)</b>	<b>\$ 412</b>	<b>\$ (83)</b>	<b>\$ 21,998</b>	<b>\$ (408)</b>
<b>Company's share of net income in Apartment LLCs</b>	<b>\$ 495</b>	<b>\$ 346</b>	<b>\$ 6,941</b>	<b>\$ 555</b>

In February 2012, one of the 35% owned Apartment LLCs sold an apartment community located in Atlanta, Georgia. The net cash proceeds from the sale of approximately \$50,500 were used to retire the Apartment LLCs outstanding mortgage note payable of \$29,272 and to make distributions to its members. The results of operations and the gain on sale of the apartment community from this Apartment LLC are included in discontinued operations for all periods presented in the financial data listed above. The Company's equity in income of unconsolidated entities for the six months ended June 30, 2012 includes a net gain of approximately \$6,055 resulting from this transaction.

At June 30, 2012, mortgage notes payable included four mortgage notes. The first \$51,000 mortgage note bears interest at 3.50%, requires monthly interest only payments and matures in 2019. The second and third mortgage notes total \$85,724, bear interest at 5.63%, require interest only payments and mature in 2017. The fourth mortgage note totals \$41,000, bears interest at 5.71%, requires interest only payments, and matures in January 2018 with a one-year automatic extension at a variable interest rate.

**4. INDEBTEDNESS**

At June 30, 2012 and December 31, 2011, the Company's indebtedness consists of the following:

Description	Payment Terms	Interest Rate	Maturity Date		June 30, 2012	December 31, 2011
Senior Unsecured Notes	Int.	4.75% - 6.30%	2013-2017	(1)	\$ 280,091	\$ 375,775
Unsecured Bank Term Loan	Int.	LIBOR + 1.90% (2)	2018		230,000	-
Unsecured Revolving Lines of Credit	Int.	LIBOR + 1.40% (3)	2016		-	135,000

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Secured Mortgage Notes	Prin. and Int.	4.88% - 5.99%	2013-2019	(4)	457,491	459,668
<b>Total</b>					<b>\$ 967,582</b>	<b>\$ 970,443</b>

- (1) There are no remaining maturities of senior unsecured notes in 2012. Senior unsecured notes totaling approximately \$130,091 mature in June 2013. The remaining unsecured notes mature in 2017.
- (2) Represents stated rate. As discussed below, the Company has entered into interest rate swap arrangements that effectively fix the interest rate under this facility at 3.45% as of June 30, 2012.
- (3) Represents stated rate.
- (4) There are no maturities of secured notes in 2012. These notes mature between 2013 and 2019.

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**Debt maturities**

The aggregate maturities of the Company's indebtedness are as follows:

Remainder of 2012	\$	2,242	
2013		186,606	
2014		3,961	
2015		124,205	
2016		4,419	(1)
Thereafter		646,149	
	\$	967,582	

(1) Includes outstanding balances on lines of credit totaling \$0.

**Debt issuances and retirements**

In June 2012, the Company repaid \$95,684 of senior unsecured notes upon their maturity. The stated interest rate on these notes was 5.45%.

In January 2012, the Company entered into a \$300,000 unsecured bank term loan facility provided by a syndicate of eight financial institutions (the Term Loan). In conjunction with the closing of the Term Loan, the Company borrowed \$100,000, which was used to pay down outstanding line of credit borrowings. On May 31, 2012, the Company borrowed an additional \$130,000, which was primarily used to retire the senior unsecured notes discussed above. On July 2, 2012, the Company borrowed the remaining available capacity of \$70,000 under the Term Loan, which will be used for general corporate purposes, including the repayment of debt. The Term Loan initially bears interest at LIBOR plus 1.90% and required the payment of unused commitment fees of 0.25% on the aggregate undrawn loan commitments through July 2, 2012. The Term Loan provides for the stated interest rate to be adjusted up or down based on changes in the credit ratings on the Company's senior unsecured debt. The component of the interest rate based on the Company's credit ratings ranges from 1.50% to 2.30%. The Term Loan matures in January 2018, includes two six-month extension options, and carries other terms, including financial covenants, substantially consistent with the Syndicated Line discussed further below. As discussed in note 8, the Company entered into interest rate swap arrangements to serve as cash flow hedges of amounts expected to be outstanding under the Term Loan. The interest rate swap arrangements effectively fix the LIBOR component of the interest rate paid under the Term Loan at a blended rate of approximately 1.54%, when fully drawn. As such, the Term Loan is initially expected to bear interest at an effective blended fixed rate of approximately 3.44%, when fully drawn (subject to any adjustment based on subsequent changes in the Company's credit ratings).

**Unsecured lines of credit**

At June 30, 2012, the Company had a \$300,000 syndicated unsecured revolving line of credit, which was amended in January 2012 (the Syndicated Line). The Syndicated Line has a current stated interest rate of LIBOR plus 1.40% (previously LIBOR plus 2.30%) and is provided by a syndicate of eleven financial institutions. The Syndicated Line currently requires the payment of annual facility fees of 0.30% (previously 0.45%) of the aggregate loan commitments. The Syndicated Line matures in January 2016 and may be extended for an additional year at the Company's option, subject to the satisfaction of certain conditions. The Syndicated Line provides for the interest rate and facility fee rate to be adjusted up or down based on changes in the credit ratings on the Company's senior unsecured debt. The component of the interest rate and the

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facility fee rate that are based on the Company's credit ratings range from 1.00% to 1.80% and from 0.15% to 0.40%, respectively. The Syndicated Line also includes a competitive bid option for borrowings up to 50% of the loan commitments, which may result in interest rates for such borrowings below the stated interest rates for the Syndicated Line, depending on market conditions. The credit agreement for the Syndicated Line contains customary restrictions, representations, covenants and events of default, including minimum fixed charge coverage, minimum unsecured interest coverage, and maximum leverage ratios. The Syndicated Line also restricts the amount of capital the Company can invest in specific categories of assets, such as improved land, properties under construction, condominium properties, non-multifamily properties, debt or equity securities, notes receivable and unconsolidated affiliates. The Syndicated Line prohibits the Company from investing further capital in condominium assets, excluding its current investments in the Atlanta Condominium Project and the Austin Condominium Project, and certain mixed-use projects, as defined. At June 30, 2012, letters of credit to third parties totaling \$575 had been issued for the account of the Company under this facility.

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Additionally, at June 30, 2012, the Company had a \$30,000 unsecured line of credit, which was also amended in January 2012 (the Cash Management Line). The Cash Management Line matures in January 2016, includes a one-year extension option, and carries pricing and terms, including financial covenants, substantially consistent with the Syndicated Line.

In connection with the Term Loan financing and the refinancing of the Syndicated Line and the Cash Management Line in January 2012, the Company incurred fees and expenses of approximately \$5,152. In connection with the refinancing of the line of credit facilities, the Company recognized an extinguishment loss of \$301 for the six months ended June 30, 2012 related to the write-off of a portion of unamortized deferred financing costs associated with the amendment of the Syndicated Line.

#### **Debt compliance and other**

The Company's Syndicated Line, Cash Management Line, Term Loan and senior unsecured notes contain customary restrictions, representations, covenants and events of default and require the Company to meet certain financial covenants. Debt service and fixed charge coverage covenants require the Company to maintain coverages of a minimum of 1.5 to 1.0, as defined in applicable debt arrangements. Additionally, the Company's ratio of unencumbered adjusted property-level net operating income to unsecured interest expense may not be less than 2.0 to 1.0, as defined in the applicable debt arrangements. Leverage covenants generally require the Company to maintain calculated covenants above/below minimum/maximum thresholds. The primary leverage ratios under these arrangements include total debt to total asset value (maximum of 60%), total secured debt to total asset value (maximum of 40%) and unencumbered assets to unsecured debt (minimum of 1.5 to 1.0), as defined in the applicable debt arrangements. The Company believes it met these financial covenants at June 30, 2012.

## **5. EQUITY AND NONCONTROLLING INTERESTS**

### **Common stock**

In May 2012, the Company adopted a new at-the-market (ATM) common equity sales program for the sale of up to 4,000 shares of common stock. At June 30, 2012, the Company has approximately 4,137 shares remaining for issuance under its new and previous ATM programs. Sales of common stock under the ATM programs totaled 97 and 578 shares for gross proceeds of \$4,847 and \$23,220 for the three months and 414 and 999 shares for gross proceeds of \$19,159 and \$39,054 for the six months ended June 30, 2012 and 2011, respectively. The average gross sales prices per share were \$50.23 and \$40.19 for the three months and \$46.33 and \$39.11 for the six months ended June 30, 2012 and 2011, respectively. The Company's net proceeds totaling \$4,643 and \$22,733 for the three months ended and \$18,625 and \$38,233 for the six months ended June 30, 2012 and 2011, respectively, were contributed to the Operating Partnership in exchange for a like number of common units. The Company and the Operating Partnership have and expect to use the proceeds from this program for general corporate purposes.

In December 2010, the Company's board of directors adopted a stock and unsecured note repurchase program under which the Company and the Operating Partnership may repurchase up to \$200,000 of common and preferred stock and unsecured notes through December 2012. The Company repurchased its 7 5/8% Series B preferred stock at its redemption value of \$49,571 during the first quarter of 2011 under this program.

### **Noncontrolling interests**

In accordance with ASC Topic 810, the Company and the Operating Partnership determined that the noncontrolling interests related to the common units of the Operating Partnership, held by persons other than the Company, met the criterion to be classified and accounted for as temporary equity (reflected outside of total equity as Redeemable Common Units). At June 30, 2012, the aggregate redemption value of the noncontrolling interests in the Operating Partnership of \$7,016 was in excess of its net book value of \$2,755. At December 31, 2011, the aggregate redemption value of the noncontrolling interests in the Operating Partnership of \$6,840 was in excess of its net book value of \$2,935.

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The Company further determined that the noncontrolling interests in its consolidated real estate entities met the criterion to be classified and accounted for as a component of permanent equity.

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A roll-forward of activity relating to the Company's Redeemable Common Units for the six months ended June 30, 2012 and 2011 was as follows:

	Six months ended June 30,	
	2012	2011
<b>Redeemable common units, beginning of period</b>	\$ 6,840	\$ 6,192
Comprehensive income (loss)	95	29
Conversion of redeemable common units for shares	(591)	(321)
Adjustment for ownership interest of redeemable common units	382	225
Stock-based compensation	4	5
Distributions to common unitholders	(69)	(67)
Adjustment to redemption value of redeemable common units	355	564
<b>Redeemable common units, end of period</b>	\$ 7,016	\$ 6,627

### 6. COMPANY EARNINGS PER SHARE

For the three and six months ended June 30, 2012 and 2011, a reconciliation of the numerator and denominator used in the computation of basic and diluted net income per share was as follows:

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
<b>Net income attributable to common shareholders (numerator):</b>				
Net income	\$ 21,170	9,834	\$ 43,035	\$ 12,847
Noncontrolling interests - consolidated real estate entities	(35)	(58)	(41)	(47)
Noncontrolling interests - Operating Partnership	(56)	(30)	(115)	(29)
Preferred stock dividends	(922)	(922)	(1,844)	(2,611)
Preferred stock redemption costs				(1,757)
Unvested restricted stock (allocation of earnings)	(48)	(29)	(94)	(26)
<b>Net income (loss) available to common shareholders</b>	<b>\$ 20,109</b>	<b>\$ 8,795</b>	<b>\$ 40,941</b>	<b>\$ 8,377</b>
<b>Common shares (denominator):</b>				
Weighted average shares outstanding - basic	53,773	49,875	53,430	49,460
Dilutive shares from stock options	323	391	369	394
<b>Weighted average shares outstanding - diluted</b>	<b>54,096</b>	<b>50,266</b>	<b>53,799</b>	<b>49,854</b>



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### Per-share amount:

Basic	\$ 0.37	\$ 0.18	\$ 0.77	\$ 0.17
Diluted	\$ 0.37	\$ 0.17	\$ 0.76	\$ 0.17

Stock options to purchase 195 and 533 shares of common stock for the three months and 195 and 533 for the six months ended June 30, 2012 and 2011, respectively, were excluded from the computation of diluted earnings per common share as these stock options were antidilutive.

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**7. OPERATING PARTNERSHIP EARNINGS PER UNIT**

For the three and six months ended June 30, 2012 and 2011, a reconciliation of the numerator and denominator used in the computation of basic and diluted net income per unit was as follows:

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
<b>Net income available to common unitholders (numerator):</b>				
Net income	\$ 21,170	\$ 9,834	\$ 43,035	\$ 12,847
Noncontrolling interests - consolidated real estate entities	(35)	(58)	(41)	(47)
Preferred unit distributions	(922)	(922)	(1,844)	(2,611)
Preferred unit redemption costs	-	-	-	(1,757)
Unvested restricted stock (allocation of earnings)	(48)	(29)	(94)	(26)
<b>Net income (loss) available to common unitholders</b>	<b>\$ 20,165</b>	<b>\$ 8,825</b>	<b>\$ 41,056</b>	<b>\$ 8,406</b>
<b>Common units (denominator):</b>				
Weighted average units outstanding - basic	53,923	50,044	53,581	49,630
Dilutive units from stock options	323	391	369	394
<b>Weighted average units outstanding - diluted</b>	<b>54,246</b>	<b>50,435</b>	<b>53,950</b>	<b>50,024</b>
<b>Per-unit amount:</b>				
Basic	\$ 0.37	\$ 0.18	\$ 0.77	\$ 0.17
Diluted	\$ 0.37	\$ 0.17	\$ 0.76	\$ 0.17

Stock options to purchase 195 and 533 shares of common stock for the three months and 195 and 533 for the six months ended June 30, 2012 and 2011, respectively, were excluded from the computation of diluted earnings per common unit as these stock options were antidilutive.

**8. FAIR VALUE MEASURES AND OTHER FINANCIAL INSTRUMENTS**

From time to time, the Company records certain assets and liabilities at fair value. Real estate assets may be stated at fair value if they become impaired in a given period and may be stated at fair value if they are held for sale and the fair value of such assets is below historical cost. Additionally, the Company records derivative financial instruments at fair value. The Company also uses fair value metrics to evaluate the carrying values of its real estate assets and for the disclosure of certain financial instruments. Fair value measurements were determined by management using available market information and appropriate valuation methodologies available to management at June 30, 2012. Considerable judgment is necessary to interpret market data and estimate fair value. Accordingly, there can be no assurance that the estimates discussed herein, using Level 2 and 3 inputs, are indicative of the amounts the Company could realize on disposition of the real estate assets or other financial instruments. The use of different market assumptions and/or estimation methodologies could have a material effect on the estimated fair value amounts.

**Real estate assets**

The Company periodically reviews its real estate assets, including operating assets, construction in progress, land held for future investment and for-sale condominiums, for impairment purposes using Level 3 inputs, primarily comparable sales and market data, independent valuations and discounted cash flow models. For the six months ended June 30, 2012 or 2011, the Company did not recognize any impairment charges related to its real estate assets.

**Derivatives and other financial instruments**

The Company manages its exposure to interest rate changes through the use of derivative financial instruments, primarily interest rate swap arrangements. In December 2011, the Company entered into three interest rate swap arrangements with substantially similar terms and conditions. These arrangements have an aggregate notional amount of \$230,000 and require the Company to pay a blended fixed rate of approximately 1.55% (with the counterparties paying the Company the floating one-month LIBOR rate). Additionally, in January 2012, the Company entered into a fourth interest rate swap arrangement with a notional amount of \$70,000 and it will require the Company to pay a fixed rate of approximately 1.50% (with the counterparty paying the Company the floating one-month LIBOR) (together, the Interest Rate Swaps). The Interest Rate Swaps will serve as cash flow hedges of amounts outstanding under the

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Company's variable rate Term Loan (see note 4) entered into in January 2012 and are expected to provide for an effective blended fixed rate for the corresponding amount of Term Loan borrowings, once fully drawn, of approximately 3.44% (subject to any adjustment based on subsequent changes in the Company's credit ratings). The Interest Rate Swaps terminate in January 2018.

The Interest Rate Swaps are measured and accounted for at fair value on a recurring basis. The Interest Rate Swaps outstanding at June 30, 2012 and December 31, 2011 were valued as net liabilities of \$9,907 and \$2,641, respectively, primarily using level 2 inputs, as substantially all of the fair value was determined using widely accepted discounted cash flow valuation techniques along with observable market-based inputs for similar types of arrangements. The Company reflects both the respective counterparty's nonperformance risks and its own nonperformance risks in its fair value measurements using unobservable inputs. However, the impact of such risks was not considered material to the overall fair value measurements of the derivatives. These liabilities are included in accounts payable, accrued expenses and other liabilities on the consolidated balance sheets. Under ASC Topic 815, a corresponding amount is included in accumulated other comprehensive income (loss), an equity account, until the hedged transactions are recognized in earnings. The following table summarizes the effect of these Interest Rate Swaps (designated as cash flow hedges) on the Company's consolidated statements of operations and comprehensive income for the six months ended June 30, 2012.

	<b>Three months ended</b>	
	<b>June 30,</b>	<b>June 30,</b>
<b>Interest Rate Swap / Cash Flow Hedging Instruments</b>	<b>2012</b>	<b>2012</b>
Loss recognized in other comprehensive income	\$ (7,740)	\$ (8,000)
Loss reclassified from accumulated other comprehensive income into interest expense	\$ (473)	\$ (734)

There were no outstanding derivative financial instruments during the six months ended June 30, 2011. The amounts reported in accumulated other comprehensive income as of June 30, 2012 will be reclassified to interest expense as interest payments are made under the hedged indebtedness. Over the next year, the Company estimates that \$3,738 will be reclassified from accumulated comprehensive income (loss) to interest expense.

As part of the Company's on-going procedures, the Company monitors the credit worthiness of its financial institution counterparties and its exposure to any single entity, which it believes minimizes credit risk concentration. The Company believes the likelihood of realized losses from counterparty non-performance is remote. The Interest Rate Swaps are cross defaulted with the Company's Term Loan and Syndicated Line (see note 4) and contain certain provisions consistent with these types of arrangements. If the Company was required to terminate the Interest Rate Swaps and settle the obligations thereunder as of June 30, 2012, the termination payment by the Company would have been approximately \$9,929.

Cash equivalents, rents and accounts receivables, accounts payable, accrued expenses and other liabilities are carried at amounts which reasonably approximate their fair values because of the short-term nature of these instruments. At June 30, 2012, the fair value of fixed rate debt was approximately \$801,724 (carrying value of \$737,582) and the carrying value of variable rate debt, including the Company's lines of credit, was approximately \$227,834 (carrying value of \$230,000). At December 31, 2011, the fair value of fixed rate debt was approximately \$885,455 (carrying value of \$835,443) and the fair value of variable rate debt, including the Company's lines of credit, was approximately \$137,495 (carrying value of \$135,000). Long-term indebtedness was valued using Level 2 inputs, primarily market prices of comparable debt instruments.

In addition, the Company has recorded a contractual license fee obligation associated with one of its condominium communities at fair values of \$3,731 and \$5,348 at June 30, 2012 and December 31, 2011, respectively. The change in the recorded license fee obligation between periods

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primarily reflects the payment of license fees on condominiums closed during the period. The contractual obligation was valued using Level 3 inputs, primarily a discounted cash flow model.

### **9. SEGMENT INFORMATION**

#### **Segment description**

In accordance with ASC Topic 280, Segment Reporting, the Company presents segment information based on the way that management organizes the segments within the enterprise for making operating decisions and assessing performance. The segment information is prepared on the same basis as the internally reported information used by the Company's chief operating decision makers to manage the business.

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The Company's chief operating decision makers focus on the Company's primary sources of income from apartment community rental operations. Apartment community rental operations are generally broken down into segments based on the various stages in the apartment community ownership lifecycle. These segments are described below. All commercial properties and other ancillary service and support operations are combined in the line item "other property segments" in the accompanying segment information. The segment information presented below reflects the segment categories based on the lifecycle status of each community as of January 1, 2011.

Fully stabilized communities – those apartment communities which have been stabilized (the earlier of the point at which a property reaches 95% occupancy or one year after completion of construction) for both the current and prior year.

Communities stabilized during the prior year – those apartment communities which reached stabilized occupancy in 2011.

Development and lease-up communities – those apartment communities that are under development, rehabilitation and lease-up but were not stabilized by the beginning of the current year, including communities that stabilized during the current year.

Acquired communities – those communities acquired in the current or prior year.

**Segment performance measure**

Management uses contribution to consolidated property net operating income (NOI) as the performance measure for its operating segments. The Company uses NOI, including NOI of stabilized communities, as an operating measure. NOI is defined as rental and other property revenue from real estate operations less total property and maintenance expenses from real estate operations (excluding depreciation and amortization). The Company believes that NOI is an important supplemental measure of operating performance for a REIT's operating real estate because it provides a measure of the core operations, rather than factoring in depreciation and amortization, financing costs and general and administrative expenses generally incurred at the corporate level. This measure is particularly useful, in the opinion of the Company, in evaluating the performance of operating segment groupings and individual properties. Additionally, the Company believes that NOI, as defined, is a widely accepted measure of comparative operating performance in the real estate investment community. The Company believes that the line on the Company's consolidated statement of operations entitled "net income (loss)" is the most directly comparable GAAP measure to NOI.

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**Segment information**

The following table reflects each segment's contribution to consolidated revenues and NOI together with a reconciliation of segment contribution to property NOI to consolidated net income for the three and six months ended June 30, 2012 and 2011. Additionally, substantially all of the Company's assets relate to the Company's property rental operations. Asset cost, depreciation and amortization by segment are not presented because such information at the segment level is not reported internally.

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
<b>Revenues</b>				
Fully stabilized communities	\$ 75,129	\$ 69,703	\$ 148,449	\$ 137,721
Development and lease-up communities	77	-	77	-
Acquired communities	1,091	-	2,149	-
Other property segments	5,657	5,494	11,333	10,791
Other	206	227	428	443
<b>Consolidated revenues</b>	<b>\$ 82,160</b>	<b>\$ 75,424</b>	<b>\$ 162,436</b>	<b>\$ 148,955</b>
<b>Contribution to Property Net Operating Income</b>				
Fully stabilized communities	\$ 46,202	\$ 41,850	\$ 91,268	\$ 82,476
Development and lease-up communities	(161)	-	(161)	-
Acquired communities	583	-	1,168	-
Other property segments, including corporate management expenses	99	141	(135)	213
<b>Consolidated property net operating income</b>	<b>46,723</b>	<b>41,991</b>	<b>92,140</b>	<b>82,689</b>
Interest income	288	516	339	608
Other revenues	206	227	428	443
Depreciation	(19,497)	(18,808)	(38,838)	(37,560)
Interest expense	(11,103)	(14,437)	(22,748)	(28,912)
Amortization of deferred financing costs	(698)	(721)	(1,359)	(1,368)
General and administrative	(3,883)	(4,246)	(8,168)	(8,362)
Investment and development	(322)	(296)	(802)	(774)
Other investment costs	(306)	(455)	(612)	(949)
Gains on condominium sales activities, net	8,530	5,432	15,434	6,176
Equity in income of unconsolidated real estate entities, net	495	346	6,941	555
Other income, net	737	285	581	301
Net loss on extinguishment of indebtedness	-	-	(301)	-
<b>Net income</b>	<b>\$ 21,170</b>	<b>\$ 9,834</b>	<b>\$ 43,035</b>	<b>\$ 12,847</b>

# **10. SEVERANCE COSTS**

In prior years, the Company recorded severance charges associated with the departure of certain executive officers of the Company. Under certain of these arrangements, the Company is required to make certain payments and provide specified benefits through 2013 and 2016. The following table summarizes the activity related to aggregate net severance charges for such executive officers for the six months ended June 30, 2012 and 2011:

	Six months ended June 30,	
	2012	2011
Accrued severance charges, beginning of period	\$ 3,518	\$ 5,441
Payments for period	(1,254)	(1,353)
Interest accretion	108	157
Accrued severance charges, end of period	\$ 2,372	\$ 4,245



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**11. STOCK-BASED COMPENSATION PLANS**

As the primary operating subsidiary of the Company, the Operating Partnership participates in and bears the compensation expenses associated with the Company's stock-based compensation plans. The information discussed below relating to the Company's stock-based compensation plans is also applicable for the Operating Partnership.

**Incentive stock plans**

Incentive stock awards are granted under the Company's 2003 Incentive Stock Plan, as amended and restated in October 2008 (the "2003 Stock Plan"). Under the 2003 Stock Plan, an aggregate of 3,469 shares of common stock were reserved for issuance. Of this amount, stock grants count against the total shares available under the 2003 Stock Plan as 2.7 shares for every one share issued, while options (and stock appreciation rights ("SAR") settled in shares) count against the total shares available as one share for every one share issued on the exercise of an option (or SAR). The exercise price of each option granted under the 2003 Stock Plan may not be less than the market price of the Company's common stock on the date of the option grant and all options may have a maximum life of ten years. Participants receiving restricted stock grants are generally eligible to vote such shares and receive dividends on such shares. Substantially all stock option and restricted stock grants are subject to annual vesting provisions (generally three to five years) as determined by the compensation committee overseeing the 2003 Stock Plan.

Compensation costs for stock options have been estimated on the grant date using the Black-Scholes option-pricing method. The weighted average assumptions used in the Black-Scholes option-pricing model are as follows:

	Six months ended June 30,	
	2012	2011
Dividend yield	2.0%	2.2%
Expected volatility	43.3%	42.4%
Risk-free interest rate	1.1%	2.7%
Expected option term (years)	6.0 years	6.0 years

The Company's assumptions were derived from the methodologies discussed herein. The expected dividend yield reflects the Company's current historical yield, which was expected to approximate the future yield. Expected volatility was based on the historical volatility of the Company's common stock. The risk-free interest rate for the expected life of the options was based on the implied yields on the U.S. Treasury yield curve. The weighted average expected option term was based on the Company's historical data for prior period stock option exercise and forfeiture activity.

**Restricted stock**

Compensation cost for restricted stock is amortized ratably into compensation expense over the applicable vesting periods. Total compensation expense related to restricted stock was \$521 and \$476 for the three months and \$1,080 and \$976 for the six months ended June 30, 2012 and 2011, respectively. At June 30, 2012, there was \$3,299 of unrecognized compensation cost related to restricted stock. This cost is expected to be recognized over a weighted average period of 2.1 years.

A summary of the activity related to the Company's restricted stock for the six months ended June 30, 2012 and 2011 is as follows:

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	Six months ended June 30,			
	2012		2011	
	Weighted-Avg.		Weighted-Avg.	
	Shares	Grant-Date Fair Value	Shares	Grant-Date Fair Value
Unvested share, beginning of period	84	\$ 29	129	\$ 19
Granted (1)	50	44	41	37
Vested	(5)	30	(1)	15
Unvested shares, end of period	129	35	169	24

(1) The total value of the restricted share grants for the six months ended June 30, 2012 and 2011 was \$2,184 and \$1,532, respectively.

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**Stock options**

Compensation cost for stock options is amortized ratably into compensation expense over the applicable vesting periods. The Company recorded compensation expense related to stock options of \$91 and \$92 for the three months and \$201 and \$186 for the six months ended June 30, 2012 and 2011, respectively, under the fair value method. At June 30, 2012, there was \$598 of unrecognized compensation cost related to unvested stock options. This cost is expected to be recognized over a weighted average period of 2.1 years.

A summary of stock option activity under all plans for the six months ended June 30, 2012 and 2011, is presented below:

	2012		Six months ended June 30,		2011	
	Shares	Exercise Price	Shares	Exercise Price	Shares	Exercise Price
Options outstanding, beginning of period	1,501	\$ 31	2,068	\$ 31		
Granted	29	44	25	37		
Exercised	(622)	29	(466)	29		
Expired		0	(10)	38		
Options outstanding, end of period (1)	908	33	1,617	31		
Options exercisable, end of period (1)	840	33	1,464	33		
Options vested and expected to vest, end of period (1)	905	33	1,610	31		
Weighted average fair value of options granted during the period	\$ 15.18		\$ 13.18			

(1) At June 30, 2012, the aggregate intrinsic value of stock options outstanding, exercisable and vested/expected to vest was \$14,303, \$13,292 and \$14,248, respectively. At that same date, the weighted average remaining contractual lives of stock options outstanding, exercisable and vested/expected to vest was 3.7 years, 3.3 years and 3.7 years, respectively.

Upon the exercise of stock options, the Company issues shares of common stock from treasury shares or, to the extent treasury shares are not available, from authorized common shares. The total intrinsic value of stock options exercised for the six months ended June 30, 2012 and 2011 was \$11,569 and \$4,180, respectively.

At June 30, 2012, the Company segregated its outstanding options into two ranges, based on exercise prices, as follows:

Option Ranges	Options Outstanding			Options Exercisable		
	Shares	Weighted Avg. Exercise Price	Weighted Avg. Life (Years)	Shares	Weighted Avg. Exercise Price	Weighted Avg. Life (Years)
\$12.22 - \$32.53	499	\$ 25	3.2	477	\$ 25	3.2
\$34.90 - \$48.00	409	44	4.3	363	44	4.3

Total	908	33	3.7	840	33
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#### Employee stock purchase plan

The Company maintains an Employee Stock Purchase Plan (the ESPP) approved by Company shareholders in 2005. The maximum number of shares issuable under the ESPP is 300. The purchase price of shares of common stock under the ESPP is equal to 85% of the lesser of the closing price per share of common stock on the first or last day of the trading period, as defined. The Company records the aggregate cost of the ESPP (generally the 15% discount on the share purchases) as a period expense. Total compensation expense relating to the ESPP was \$98 and \$30 for the three months and \$146 and \$116 for the six months ended June 30, 2012 and 2011, respectively.

## 12. INCOME TAXES

The Company has elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended (the Code). To qualify as a REIT, the Company must distribute annually at least 90% of its adjusted taxable income, as defined in the Code, to its shareholders and satisfy certain other organizational and operating requirements. It is management's current intention to adhere to these

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### **POST PROPERTIES, INC. AND POST APARTMENT HOMES, L.P.**

#### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited, in thousands, except per share or unit and apartment unit data)

requirements and maintain the Company's REIT status. As a REIT, the Company generally will not be subject to federal income tax at the corporate level on the taxable income it distributes to its shareholders. Should the Company fail to qualify as a REIT in any tax year, it may be subject to federal income taxes at regular corporate rates (including any applicable alternative minimum tax) and may not be able to qualify as a REIT for four subsequent taxable years. The Company may be subject to certain state and local taxes on its income and property, and to federal income taxes and excise taxes on its undistributed taxable income.

The Operating Partnership files tax returns as a limited partnership under the Code. As a partnership, the income and losses of the Operating Partnership are allocated to its partners, including the Company, for inclusion in their respective income tax returns. Accordingly, no provision or benefit for income taxes has been included in the accompanying financial statements. The Operating Partnership intends to make sufficient cash distributions to the Company to enable it to meet its annual REIT distribution requirements.

In the preparation of income tax returns in federal and state jurisdictions, the Company, the Operating Partnership and their taxable REIT subsidiaries assert certain tax positions based on their understanding and interpretation of the income tax law. The taxing authorities may challenge such positions and the resolution of such matters could result in the payment and recognition of additional income tax expense. Management believes it has used reasonable judgments and conclusions in the preparation of its income tax returns. The Company, the Operating Partnership and their subsidiaries (including the taxable REIT subsidiaries ( TRSs )) income tax returns are subject to examination by federal and state tax jurisdictions for years 2008 through 2010. Net income tax loss carryforwards and other tax attributes generated in years prior to 2008 are also subject to challenge in any examination of the 2008 to 2010 tax years.

As of June 30, 2012 and December 31, 2011, the Company's TRSs had unrecognized tax benefits of approximately \$797 which primarily related to uncertainty regarding the sustainability of certain deductions taken on prior year income tax returns of the TRS with respect to the amortization of certain intangible assets. The uncertainty surrounding this unrecognized tax benefit will generally be clarified in future periods as income tax loss carryforwards are utilized. To the extent these unrecognized tax benefits are ultimately recognized, they may affect the effective tax rate in a future period. The Company's policy is to recognize interest and penalties, if any, related to unrecognized tax benefits as income tax expense. Accrued interest and penalties for the three and six months ended June 30, 2012 and 2011, were not material to the Company's results of operations, cash flows or financial position.

The TRSs are utilized principally to perform such non-REIT activities as asset and property management, for-sale housing (condominiums) sales and other services. These TRSs are subject to federal and state income taxes. For the six months ended June 30, 2012, the TRSs recognized an income tax benefit of \$612 related to the expected recovery of income taxes paid in prior years upon the filing of amended tax returns to utilize net operating loss carryback claims to such years. The income tax benefit was included in condominium gains on the consolidated statement of operations as the income taxes paid in such prior years primarily resulted from condominium activities. Other than the tax benefit related to this carryback claim in 2012, the TRSs recorded no net income tax expense (benefit) for federal income taxes for the three or six months ended June 30, 2012 and 2011, as a result of estimated taxable losses and the inability to recognize tax benefits related to such losses due to the uncertainty surrounding their ultimate realization.

The Company's net deferred tax assets primarily reflect real estate asset basis differences between carrying amounts for financial and income tax reporting purposes, income tax loss carryforwards and the timing of income and expense recognition for certain accrued liabilities and transactions. At December 31, 2011, net deferred tax assets totaled approximately \$60,197. At December 31, 2011, management had established valuation allowances to offset such net deferred tax assets due primarily to historical losses at the TRSs in prior years and the variability of the income (loss) of these subsidiaries. The tax benefits associated with such unused valuation allowances may be recognized in future periods, if the taxable REIT subsidiaries generate sufficient taxable income to utilize such amounts or if the Company determines that it is more likely than not that the related deferred tax assets are realizable. For the six months ended June 30, 2012, changes to the components of net deferred tax assets were offset by changes to deferred tax asset valuation allowances.



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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited, in thousands, except per share or unit and apartment unit data)

**13. LEGAL PROCEEDINGS, COMMITMENTS AND CONTINGENCIES**

In September 2010, the United States Department of Justice (the "DOJ") filed a lawsuit against the Company in the United States District Court for the Northern District of Georgia. The suit alleges various violations of the Fair Housing Act ("FHA") and the Americans with Disabilities Act ("ADA") at properties designed, constructed or operated by the Company in the District of Columbia, Virginia, Florida, Georgia, New York, North Carolina and Texas. The plaintiff seeks statutory damages and a civil penalty in unspecified amounts, as well as injunctive relief that includes retrofitting apartments and public use areas to comply with the FHA and the ADA and prohibiting construction or sale of noncompliant units or complexes. The Company filed a motion to transfer the case to the United States District Court for the District of Columbia, where a previous civil case involving alleged violations of the FHA and ADA by the Company was filed and ultimately dismissed. On October 29, 2010, the United States District Court for the Northern District of Georgia issued an opinion finding that the complaint shows that the DOJ's claims are essentially the same as the previous civil case, and, therefore, granted the Company's motion and transferred the DOJ's case to the United States District Court for the District of Columbia. Limited discovery is proceeding as permitted by the Court. Due to the preliminary nature of the litigation, it is not possible to predict or determine the outcome of the legal proceeding, nor is it possible to estimate the amount of loss, if any, that would be associated with an adverse decision.

The Company is involved in various other legal proceedings incidental to their business from time to time, most of which are expected to be covered by liability or other insurance. Management of the Company believes that any resolution of pending proceedings or liability to the Company which may arise as a result of these various other legal proceedings will not have a material adverse effect on the Company's results of operations or financial position.

**14. SUBSEQUENT EVENTS**

The Company evaluated the accounting and disclosure requirements for subsequent events reporting through the issuance date of the financial statements. In July 2012, the Company acquired a 360-unit apartment community, including approximately 7,612 square feet of retail space, located in Charlotte, North Carolina for a purchase price of \$74,000. In July 2012, the Company borrowed the remaining available capacity of \$70,000 under its existing Term Loan (see note 4).

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### **MANAGEMENT'S DISCUSSION AND ANALYSIS OF**

### **FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

(Unaudited, in thousands, except per share or unit and apartment unit data)

## **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

### **Company overview**

Post Properties, Inc. (the *Company*) and its subsidiaries develop, own and manage upscale multi-family apartment communities in selected markets in the United States. The Company through its wholly-owned subsidiaries is the sole general partner, a limited partner and owns a majority interest in Post Apartment Homes, L.P. (the *Operating Partnership*), a Georgia limited partnership. The Operating Partnership, through its operating divisions and subsidiaries conducts substantially all of the on-going operations of the Company, a publicly traded corporation which operates as a self-administered and self-managed real estate investment trust (*REIT*). As used herein, the term *Company* includes Post Properties, Inc. and its subsidiaries, including Post Apartment Homes, L.P., unless the context indicates otherwise.

The Company has elected to qualify and operate as a self-administered and self-managed REIT for federal income tax purposes. A REIT is a legal entity which holds real estate interests and is generally not subject to federal income tax on the income it distributes to its shareholders. The Operating Partnership is governed under the provisions of a limited partnership agreement, as amended. Under the provisions of the limited partnership agreement, as amended, Operating Partnership net profits, net losses and cash flow (after allocations to preferred ownership interests) are allocated to the partners in proportion to their common ownership interests. Cash distributions from the Operating Partnership shall be, at a minimum, sufficient to enable the Company to satisfy its annual dividend requirements to maintain its REIT status under the Internal Revenue Code.

At June 30, 2012, the Company had interests in 21,622 apartment units in 58 communities, including 1,471 apartment units in four communities held in unconsolidated entities and 1,810 apartment units in six communities currently under development or in lease-up. The Company is also selling luxury for-sale condominium homes in two communities through a taxable REIT subsidiary. At June 30, 2012, approximately 33.4%, 23.8%, 13.0% and 10.7% (on a unit basis) of the Company's operating communities were located in the Atlanta, Georgia, Dallas, Texas, the greater Washington, D.C. and Tampa, Florida metropolitan areas, respectively.

At June 30, 2012, the Company owned approximately 99.7% of the common limited partnership interests (*Common Units*) in the Operating Partnership. Common Units held by persons other than the Company represented a 0.3% common noncontrolling interest in the Operating Partnership.

The discussion below is combined for the Company and the Operating Partnership as their results of operations and financial condition are substantially the same except for the effect of the 0.3% weighted average common noncontrolling interest in the Operating Partnership.

### **Operations Overview**

The following discussion provides an overview of the Company's operations, and should be read in conjunction with the more full discussion of the Company's operating results, liquidity and capital resources and risk factors reflected elsewhere in this Form 10-Q.

#### *Property Operations*

A gradually improving economy in the United States, favorable demographics and an outlook of modest new supply of multi-family units in the near term have contributed to improving apartment fundamentals in the Company's markets since 2010. As a result, year-over-year same store revenues and net operating income (*NOI*) increased by 7.8% and 10.7%, respectively, in the first half of 2012, as compared to the first half of 2011. The Company's operating results for the second quarter and first half of 2012, and its outlook for the remainder of 2012 are more fully discussed in the *Results of Operations* and *Outlook* sections below. The Company's outlook for the remainder of 2012 is based on the expectation that economic and employment conditions will continue to gradually improve. However, there continues to be significant risks and uncertainty in the economy and the unemployment rate continues to be higher than normal. If the economic recovery was to stall or U.S. economic



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conditions were to worsen, the Company's operating results would be adversely affected. Furthermore, the environment for multi-family rental development starts has been improving, and over time, the Company expects that this will impact competitive supply in the markets in which it operates.

### *Acquisition Activity*

In December 2011, the Company acquired Post Katy Trail, a 227-unit apartment community located in Uptown Dallas, Texas for a purchase price of \$48,500. The community was completed in 2010 and includes 9,080 square feet of retail space that is currently 100% leased. Operating results for the three and six months ended June 30, 2012 includes property revenues of \$1,091 and \$2,149, respectively, and net operating income of \$583 and \$1,168, respectively, from this community.

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### **MANAGEMENT'S DISCUSSION AND ANALYSIS OF**

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In July 2012, the Company acquired Post South End, a 360-unit apartment community located in Charlotte, North Carolina for a purchase price of \$74,000. The community was completed in 2009 and includes approximately 7,612 square feet of retail space.

#### *Development Activity*

The Company continues to develop six communities: (1) the second phase of its Post Carlyle Square apartment community in Alexandria, Virginia, planned to consist of 344 apartment units with a total estimated development cost of approximately \$89,000, which began delivering units in the second quarter of 2012 and was 20.0% leased as of July 27, 2012, (2) its Post South Lamar apartment community in Austin, Texas, planned to consist of 298 apartment units and approximately 8,555 square feet of retail space with a total estimated development cost of approximately \$41,700, (3) the third phase of its Post Midtown Square<sup>®</sup> apartment community in Houston, Texas, planned to consist of 124 apartment units and approximately 10,864 square feet of retail space with a total estimated development cost of approximately \$21,800, (4) its third phase of its Post Lake<sup>®</sup> at Baldwin Park apartment community in Orlando, Florida, planned to consist of 410 luxury apartment units with a total estimated development cost of approximately \$58,600, (5) its Post Parkside at Wade apartment community, which marks the Company's first development in Raleigh, North Carolina, planned to consist of 392 apartment units, and approximately 18,148 square feet of retail space, with a total estimated development cost of approximately \$55,000 and (6) its Post Richmond Avenue apartment community in Houston, Texas, planned to consist of 242 apartment units with an estimated development cost of approximately \$34,300. The square footage amounts are approximate and actual amounts may vary. The Company expects to initially fund estimated future construction expenditures primarily by utilizing available borrowing capacity under its unsecured bank credit facilities and utilizing net proceeds from on-going condominium sales and its at-the-market common equity sales program.

In addition, the Company may commence development activities at more of its existing land sites over the next year or so. Management believes, however, that the timing of such development starts will depend largely on a continued favorable outlook for apartment and capital market conditions and the U.S. economy, which management believes will positively influence conditions in employment and the local real estate markets. Until such time as additional development activities commence or certain land positions are sold, the Company expects that operating results will be adversely impacted by costs of carrying land held for future investment or sale. There can be no assurance that land held for investment will be developed in the future or at all. Although the Company does not believe that any impairment exists at June 30, 2012, should the Company change its expectations regarding the timing and projected undiscounted future cash flows expected from land held for future investment, or the estimated fair value of its assets, the Company could be required to recognize impairment losses in future periods.

#### *Condominium Activity*

The Company has two luxury condominium development projects which began closing sales of completed units in 2010: The Ritz-Carlton Residences, Atlanta Buckhead (the Atlanta Condominium Project), consisting of 129 units, and the Four Seasons Private Residences, Austin (the Austin Condominium Project), consisting of 148 units. The Company does not expect to further engage in the for-sale condominium business in future periods, other than with respect to completing the sell-out of units at these two projects. The Company's intention over time is to liquidate its investment in these two condominium projects and to redeploy the invested capital back into its core apartment business.

The Company's investment in for-sale condominium housing exposes the Company to additional risks and challenges, including potential future losses or additional impairments, which could have an adverse impact on the Company's business, results of operations and financial condition. See Item 1A, Risk Factors in the Company's Form 10-K for the year ended December 31, 2011 for a discussion of these and other Company risk factors. Specifically, the condominium market has been adversely impacted in recent years by the overall weakness in the U.S. economy and residential housing markets, and tighter credit markets for home purchasers, which the Company believes has negatively impacted the ability of some prospective condominium buyers to qualify for mortgage financing. The Company expects that the above-described condominium market conditions will remain in the near term, and the modest pace of condominium sales and closings will continue during the remainder of 2012. However, the Company has noted that the pace of condominium sales activity has increased moderately during the first half of 2012.

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As of July 27, 2012, the Company had 6 units under contract and 109 units closed at the Austin Condominium Project and had 18 units under contract and 55 units closed at the Atlanta Condominium Project. Units under contract include all units currently under contract. However, the Company has experienced contract terminations in these and other condominium projects when units become available for delivery and may experience additional terminations in connection with these projects. Accordingly, there can be no assurance that units under contract for sale will actually close. At June 30, 2012, the Company's investment in these two condominium projects totaled \$40,353 as reflected on its consolidated balance sheet.

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### **MANAGEMENT'S DISCUSSION AND ANALYSIS OF**

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#### *Risk of future condominium impairment losses*

The Company recorded impairment losses in prior years related to the Austin Condominium Project and the Atlanta Condominium Project. The Company recorded a \$34,691 impairment charge in 2010 at the Austin Condominium Project and, in the aggregate, recorded \$89,883 of impairment charges in 2009 and 2010 at the Atlanta Condominium Project and an adjacent land site. The Company evaluated the fair value of the Austin Condominium Project and the Atlanta Condominium Project as of June 30, 2012, and determined that no additional impairment existed as of that date. The model assumptions used to determine the fair value of these projects were based on current cash flow projections over the remaining expected sell-out periods and using market discount rates, which reflect the current status of sales, sales prices and other market factors at each of the condominium projects. There can be no assurance that the Company's cash flow projections will not change in future periods and that the estimated fair value of the Austin Condominium Project and the Atlanta Condominium Project will not change materially as a consequence, causing the Company to possibly record additional impairment charges in future periods.

The following discussion should be read in conjunction with all of the accompanying consolidated financial statements appearing elsewhere in this report. See the summary financial information in the section below titled, "Results of Operations."

#### **Disclosure Regarding Forward-Looking Statements**

Certain statements made in this report, and other written or oral statements made by or on behalf of the Company, may constitute forward-looking statements within the meaning of the federal securities laws. In addition, the Company, or the executive officers on the Company's behalf, may from time to time make forward-looking statements in reports and other documents the Company files with the SEC or in connection with oral statements made to the press, potential investors or others. Statements regarding future events and developments and the Company's future performance, as well as management's expectations, beliefs, plans, estimates or projections relating to the future, are forward-looking statements within the meaning of these laws. Forward-looking statements include statements preceded by, followed by or that include the words believes, expects, anticipates, plans, estimates, should, or similar expressions. Examples of such statements in this report include expectations regarding economic conditions, the Company's anticipated operating results in 2012, expectations regarding future impairment charges, expectations regarding engagement in the for-sale condominium business, anticipated sales of for-sale condominium homes, including expectations regarding demand for for-sale housing and gains (losses) on for-sale housing sales activity, anticipated construction and development activities (including projected costs, timing and anticipated potential sources of financing of future development activities), expectations regarding cash flows from operating activities, expected costs of development, investment, interest and other expenses, expectations regarding the use of proceeds from, outstanding borrowings under and effective interest rates under the Company's unsecured term loan and revolving credit facilities, expectations regarding compensation costs for stock-based compensation, expectations regarding the delivery of apartment units at lease-up communities, the Company's expected debt levels, the expected prepayment of indebtedness, expectations regarding the availability of additional capital, unsecured and secured financing, the anticipated dividend level in 2012 and expectations regarding the source of funds for payment of the dividend, expectations regarding the Company's ability to execute its 2012 business plan and to meet short-term and long-term liquidity requirements, including capital expenditures, development and construction expenditures, land and apartment community acquisitions, dividends and distributions on its common and preferred equity and debt service requirements and long-term liquidity requirements including maturities of long-term debt and acquisition and development activities, the Company's expectations regarding asset acquisitions and sales in 2012, the Company's expectations regarding the use of joint venture arrangements, expectations regarding the Company's at-the-market common equity program and the use of proceeds thereof, expectations regarding the DOJ matter and the outcome of and insurance coverage for other legal proceedings, and expectations regarding the Company's ability to maintain its REIT status under the Internal Revenue Code. Forward-looking statements are only predictions and are not guarantees of performance. These statements are based on beliefs and assumptions of the Company's management, which in turn are based on currently available information. Important assumptions relating to the forward-looking statements include, among others, assumptions regarding the market for the Company's apartment communities, demand for apartments in the markets in which it operates, competitive conditions and general economic conditions. These assumptions could prove inaccurate. The forward-looking statements also involve risks and uncertainties, which could cause actual results to differ materially from those contained in any forward-looking statement. Many of these factors are beyond the Company's ability to control or predict. Such factors

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include, but are not limited to, the following:

The success of the Company's business strategies described on pages 2 to 3 of the Company's Form 10-K for the year ended December 31, 2011 (the "Form 10-K");

Conditions affecting ownership of residential real estate and general conditions in the multi-family residential real estate market;

Uncertainties associated with the Company's real estate development and construction;

Uncertainties associated with the timing and amount of apartment community sales;

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Exposure to economic and other competitive factors due to market concentration;  
 Future local and national economic conditions, including changes in job growth, interest rates, the availability of mortgage and other financing and related factors;  
 Uncertainties associated with the global capital markets, including the continued availability of traditional sources of capital and liquidity and related factors;  
 The Company's ability to generate sufficient cash flows to make required payments associated with its debt financing;  
 The effects of the Company's leverage on its risk of default and debt service requirements;  
 The impact of a downgrade in the credit rating of the Company's securities;  
 The effects of a default by the Company or its subsidiaries on an obligation to repay outstanding indebtedness, including cross-defaults and cross-acceleration under other indebtedness or the responsibility for recourse guarantees;  
 The effects of covenants of the Company or its subsidiaries' mortgage indebtedness on operational flexibility and default risks;  
 The effects of any decision by the government to eliminate Fannie Mae or Freddie Mac or reduce government support for apartment mortgage loans;  
 The Company's ability to maintain its current dividend level;  
 Uncertainties associated with the Company's for-sale condominium housing business, including the timing and volume of condominium sales;  
 The impact of any additional charges the Company may be required to record in the future related to any impairment in the carrying value of its assets;  
 The impact of competition on the Company's business, including competition for residents in the Company's apartment communities and buyers of the Company's for-sale condominium homes and development locations;  
 The Company's ability to compete for limited investment opportunities;  
 The effect of changes in interest rates and the effectiveness of interest rate hedging contracts;  
 The success of the Company's acquired apartment communities;  
 The Company's ability to succeed in new markets;  
 The costs associated with compliance with laws requiring access to the Company's properties by persons with disabilities;  
 The impact of the Company's ongoing litigation with the U.S. Department of Justice ( DOJ ) regarding the Americans with Disabilities Act and the Fair Housing Act (including any award of compensatory or punitive damages or injunctive relief requiring the Company to retrofit apartments or public use areas or prohibiting the sale of apartment communities or condominium units) as well as the impact of other litigation;  
 The effects of losses from natural catastrophes in excess of insurance coverage;  
 Uncertainties associated with environmental and other regulatory matters;  
 The Company's ability to control joint ventures, properties in which it has joint ownership and corporations and limited partnership in which it has partial interests;  
 The Company's ability to renew leases or relet units as leases expire;  
 The Company's ability to continue to qualify as a REIT under the Internal Revenue Code;  
 The Operating Partnership's ability to continue to be treated as a partnership under the Internal Revenue Code;  
 The effects of changes in accounting policies and other regulatory matters detailed in the Company's filings with the Securities and Exchange Commission;  
 Increased costs arising from health care reform;  
 Any breach of the Company's privacy or information security systems; and  
 Other factors, including the risk factors discussed in Item 1A of the Company's Form 10-K.

Management believes these forward-looking statements are reasonable; however, undue reliance should not be placed on any forward-looking statements, which are based on current expectations. Further, forward-looking statements speak only as of the date they are made, and management undertakes no obligation to update publicly any of them in light of new information or future events.

### **Critical accounting policies and new guidance**

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In the preparation of financial statements and in the determination of Company operating performance, the Company utilizes certain significant accounting policies. The Company's significant accounting policies are included in the notes to the Company's consolidated financial statements included in the Company's Form 10-K. The Company's critical accounting policies are those that require application of management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. For a complete description of the Company's critical accounting policies, please refer to pages 30 through 32 of the Company's Form 10-K. There were no significant changes to the Company's critical accounting policies and estimates for the six months ended June 30, 2012. The discussion below

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### **MANAGEMENT'S DISCUSSION AND ANALYSIS OF**

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details the Company's critical accounting policies related to asset impairments and revenue and profit recognition of for-sale condominium activities, and addresses the implementation and impact of recently issued and adopted accounting guidance with an impact on the Company, if any, for the six months ended June 30, 2012 or that may have an impact on future reported results.

The Company continually evaluates the recoverability of the carrying value of its real estate assets using the methodology summarized in its accounting policies (see note 1 to the consolidated financial statements). Under current accounting literature, the evaluation of the recoverability of the Company's real estate assets requires the judgment of Company management in the determination of the future cash flows expected from the assets and the estimated holding period for the assets. The Company uses market capitalization rates to determine the estimated residual value of its real estate assets and, generally, takes a long-term view of the holding period of its assets unless specific facts and circumstances warrant shorter holding periods (expected sales, departures from certain geographic markets, etc.). The Company considers a real estate asset held for investment as impaired if the undiscounted, estimated future cash flows of the asset (both the annual estimated cash flow from future operations and the estimated cash flow from the asset's eventual sale) over its expected holding period are less than the asset's net book value. For real estate assets held for sale, if any, the Company recognizes impairment losses if an asset's net book value is in excess of its estimated fair value, less costs to sell. At June 30, 2012, management believed it had applied reasonable estimates and judgments in determining the proper classification of its real estate assets and determined that no impairment existed. See notes 1 and 8 to the consolidated financial statements for a further discussion of the Company's methodologies for determining the fair value of the Company's real estate assets. Should external or internal circumstances change requiring the need to shorten the holding periods or adjust the estimated future cash flows of certain of the Company's assets, the Company could be required to record impairment charges in the future.

In addition, for-sale condominium assets are evaluated for impairment using the methodology for assets held for sale (using discounted projected future cash flows). The Company currently owns two luxury condominium assets with a book value of \$40,353 at June 30, 2012. These projects were substantially completed and began delivering and closing for-sale condominium homes in 2010. See the Operations Overview section of this Management's Discussion and Analysis of Financial Condition and Results of Operations and note 8 to the consolidated financial statements for a discussion of the impairment analysis. The Company recognized impairment charges in 2010 and 2009 related to the Austin Condominium Project and the Atlanta Condominium Project and adjacent land. As discussed in the Operations Overview above, the Company may be required to record additional impairment charges in connection with these condominium projects in future years if the Company's projections of future discounted cash flows were to indicate in a future quarter that the carrying value of the assets is not deemed recoverable.

Under ASC Topic 360-20, Plant Property and Equipment—Real Estate Sales, the Company uses the relative sales value method to allocate costs and recognize profits from condominium sales. Under the relative sales value method, estimates of aggregate project revenues and aggregate project costs are used to determine the allocation of project cost of sales and the resulting profit in each accounting period. In subsequent periods, project cost of sale allocations and profits are adjusted to reflect changes in the actual and estimated costs and revenues of each project. Unexpected increases or decreases in estimated project revenues and project costs could cause future cost of sale and profit margin amounts recognized in the financial statements to be different than the amounts recognized in prior periods. As the Company continues the sell-out of its two luxury condominium communities in future periods, changes in estimates of this nature could have a significant impact on reported future results from operations.

The Company adopted new guidance in ASC Topic 220, Comprehensive Income, related to the presentation of comprehensive income as of December 31, 2011. The new guidance requires the presentation of the components of comprehensive income in one continuous statement or in two separate but consecutive statements. The Company has presented a separate statement of comprehensive income in its consolidated financial statements for all periods presented. The adoption of this guidance did not have a material effect on the Company's results of operations or financial condition.

### **Results of operations**



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The following discussion of results of operations should be read in conjunction with the consolidated statements of operations and the community operations/segment performance information included below.

The Company's revenues and earnings from continuing operations are generated primarily from the operation of its apartment communities. For purposes of evaluating comparative operating performance, the Company categorizes its operating apartment communities based on the period each community reaches stabilized occupancy. The Company generally considers a community to have achieved stabilized occupancy on the earlier to occur of (1) attainment of 95% physical occupancy on the first day of any month or (2) one year after completion of construction.

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(Unaudited, in thousands, except per share or unit and apartment unit data)

For the six months ended June 30, 2012, the Company's portfolio of operating apartment communities, excluding four communities held in unconsolidated entities, consisted of the following: (1) 50 communities that were completed and stabilized for all of the current and prior year (same store), (2) a portion of one community in lease-up and (3) one community acquired in 2011. There were no apartment communities classified as held for sale in discontinued operations at June 30, 2012.

The Company has adopted an accounting policy related to communities in the lease-up stage whereby substantially all operating expenses (including pre-opening marketing and management and leasing personnel expenses) are expensed as incurred. During the lease-up phase, the sum of interest expense on completed units and other operating expenses (including pre-opening marketing and management and leasing personnel expenses) will initially exceed rental revenues, resulting in a lease-up deficit, which continues until such time as rental revenues exceed such expenses. In the second quarter of 2012, the Company began to deliver and lease-up units at its Post Carlyle Square - Phase II community. Lease-up deficits for the three and six months ended June 30, 2012 totaled \$273. There were no lease-up deficits in 2011. The Company expects to incur lease-up deficits for the remainder of 2012, as the Company begins to deliver completed apartment units at certain of its development communities.

In order to evaluate the operating performance of its communities for the comparative years listed below, the Company has presented financial information which summarizes the rental and other revenues, property operating and maintenance expenses (excluding depreciation and amortization) and net operating income on a comparative basis for all of its operating communities and for its fully stabilized operating communities. Net operating income is a supplemental non-GAAP financial measure. The Company believes that the line on the Company's consolidated statement of operations entitled "net income (loss)" is the most directly comparable GAAP measure to net operating income. Net operating income is reconciled to GAAP net income (loss) in the financial information accompanying the tables. The Company believes that net operating income is an important supplemental measure of operating performance for a REIT's operating real estate because it provides a measure of the core operations, rather than factoring in depreciation and amortization, financing costs and general and administrative expenses. This measure is particularly useful, in the opinion of the Company, in evaluating the performance of geographic operations, operating segment groupings and individual properties. Additionally, the Company believes that net operating income, as defined, is a widely accepted measure of comparative operating performance in the real estate investment community.

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FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

(Unaudited, in thousands, except per share or unit and apartment unit data)

***All operating communities***

The operating performance and capital expenditures for all of the Company's apartment communities and other commercial properties summarized by segment for the three and six months ended June 30, 2012 and 2011 were as follows:

	Three months ended June 30,			Six months ended June 30,		
	2012	2011	% Change	2012	2011	% Change
<b>Rental and other property revenues</b>						
Fully stabilized communities (1)	\$ 75,129	\$ 69,703	7.8%	\$ 148,449	\$ 137,721	7.8%
Development and lease-up communities	77	-	100.0%	77	-	100.0%
Acquired communities (2)	1,091	-	100.0%	2,149	-	100.0%
Other property segments (3)	5,657	5,494	3.0%	11,333	10,791	5.0%
	81,954	75,197	9.0%	162,008	148,512	9.1%
<b>Property operating and maintenance expenses (excluding depreciation and amortization)</b>						
Fully stabilized communities (1)	28,927	27,853	3.9%	57,181	55,245	3.5%
Development and lease-up communities	238	-	100.0%	238	-	100.0%
Acquired communities (2)	508	-	100.0%	981	-	100.0%
Other property segments, including corporate management expenses (4)	5,558	5,353	3.8%	11,468	10,578	8.4%
	35,231	33,206	6.1%	69,868	65,823	6.1%
<b>Property net operating income (5)</b>	<b>\$ 46,723</b>	<b>\$ 41,991</b>	<b>11.3%</b>	<b>\$ 92,140</b>	<b>\$ 82,689</b>	<b>11.4%</b>
<b>Capital expenditures (6)</b>						
Annually recurring:						
Carpet	\$ 886	\$ 779	13.7%	\$ 1,582	\$ 1,423	11.2%
Other	3,652	3,614	1.1%	5,898	5,098	15.7%
Total	\$ 4,538	\$ 4,393	3.3%	\$ 7,480	\$ 6,521	14.7%
Periodically recurring	\$ 2,146	\$ 2,275	(5.7)%	\$ 3,523	\$ 3,568	(1.3)%
Average apartment units in service	18,341	18,114	1.3%	18,341	18,114	1.3%

(1) Communities which reached stabilization prior to January 1, 2011.

(2) Communities acquired subsequent to January 1, 2011.

(3)

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Other property segment revenues include revenues from commercial properties, revenues from furnished apartment rentals above the unfurnished rental rates and any property revenue not directly related to property operations. Other property segment revenues exclude other corporate revenues of \$206 and \$227 for the three months and \$428 and \$443 for the six months ended June 30, 2012 and 2011, respectively.

- (4) Other expenses include expenses associated with commercial properties, furnished apartment rentals and corporate property management expenses. Corporate property management expenses were \$2,748 and \$2,713 for the three months and \$5,709 and \$5,278 for the six months ended June 30, 2012 and 2011, respectively.

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### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Unaudited, in thousands, except per share or unit and apartment unit data)

(5) A reconciliation of property net operating income to GAAP net income (loss) is detailed below.

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Fully stabilized community NOI	\$ 46,202	\$ 41,850	\$ 91,268	\$ 82,476
Property NOI from other operating segments	521	141	872	213
Consolidated property NOI	46,723	41,991	92,140	82,689
Add (subtract):				
Interest income	288	516	339	608
Other revenues	206	227	428	443
Depreciation	(19,497)	(18,808)	(38,838)	(37,560)
Interest expense	(11,103)	(14,437)	(22,748)	(28,912)
Amortization of deferred financing costs	(698)	(721)	(1,359)	(1,368)
General and administrative	(3,883)	(4,246)	(8,168)	(8,362)
Investment and development	(322)	(296)	(802)	(774)
Other investment costs	(306)	(455)	(612)	(949)
Gains on condominium sales activities, net	8,530	5,432	15,434	6,176
Equity in income of unconsolidated real estate entities, net	495	346	6,941	555
Other income, net	737	285	581	301
Net loss on extinguishment of indebtedness	-	-	(301)	-
Net income	\$ 21,170	\$ 9,834	\$ 43,035	\$ 12,847

(6) In addition to those expenses which relate to property operations, the Company incurs annually recurring and periodically recurring expenditures relating to acquiring new assets, materially enhancing the value of an existing asset, or substantially extending the useful life of an existing asset, all of which are capitalized. Recurring capital expenditures are those that are generally expected to be incurred on an annual basis. Periodically recurring capital expenditures are those that generally occur less frequently than on an annual basis.

#### **Fully stabilized (same store) communities**

The Company defines fully stabilized communities as those which have reached stabilization prior to the beginning of the previous year. For the 2012 to 2011 comparison, fully stabilized communities are defined as those communities which reached stabilization prior to January 1, 2011. This portfolio consisted of 50 communities with 18,114 units, including 13 communities with 5,407 units (29.8%) located in Atlanta, Georgia, 14 communities with 4,559 units (25.2%) located in Dallas, Texas, 6 communities with 2,301 units (12.7%) located in the greater Washington D.C. metropolitan area, 4 communities with 2,111 units (11.7%) located in Tampa, Florida, 4 communities with 1,388 units (7.7%) located in Charlotte, North Carolina and 9 communities with 2,348 units (12.9%) located in other markets. The operating performance of these communities was as follows:

Three months ended  
June 30,

Six months ended  
June 30,

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	2012	2011	% Change	2012	2011	% Change
Rental and other revenues	\$ 75,129	\$ 69,703	7.8%	\$ 148,449	\$ 137,721	7.8%
Property operating and maintenance expenses (excluding depreciation and amortization)	28,927	27,853	3.9%	57,181	55,245	3.5%
Same store net operating income (1)	\$ 46,202	\$ 41,850	10.4%	\$ 91,268	\$ 82,476	10.7%
Capital expenditures (2)						
Annually recurring:						
Carpet	\$ 886	\$ 779	13.7%	\$ 1,582	\$ 1,423	11.2%
Other	3,286	3,522	(6.7)%	5,395	4,907	9.9%
Total annually recurring	4,172	4,301	(3.0)%	6,977	6,330	10.2%
Periodically recurring	1,896	1,992	(4.8)%	2,427	2,909	(16.6)%
Total capital expenditures (A)	\$ 6,068	\$ 6,293	(3.6)%	\$ 9,404	\$ 9,239	1.8%
Total capital expenditures per unit (A ÷ 18,114 units)	\$ 335	\$ 347	(3.5)%	\$ 519	\$ 510	1.8%
Average monthly rental rate per unit (3)	\$ 1,341	\$ 1,259	6.5%	\$ 1,330	\$ 1,251	6.3%
Average economic occupancy (4)	96.1%	95.1%	1.0%	96.0%	95.0%	1.0%
Physical occupancy, end of period (4)	96.3%	95.7%	0.6%	96.3%	95.7%	0.6%
Gross turnover (5)	62.4%	63.2%	(0.8)%	55.6%	55.0%	0.6%
Percentage rent increase new leases (6)	7.2%	6.6%	0.6%	6.5%	6.3%	0.2%
Percentage rent increase renewed leases (6)	6.5%	5.8%	0.7%	6.7%	5.2%	1.5%

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### MANAGEMENT'S DISCUSSION AND ANALYSIS OF

### FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Unaudited, in thousands, except per share or unit and apartment unit data)

- (1) Net operating income of stabilized communities is a supplemental non-GAAP financial measure. See page 35 for a reconciliation of net operating income for stabilized communities to GAAP net income.
- (2) A reconciliation of these segment components of property capital expenditures to total annually recurring and periodically recurring and total capital expenditures as presented in the consolidated statements of cash flows prepared under GAAP is detailed below.

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Annually recurring capital expenditures by operating segment				
Fully stabilized communities	\$ 4,172	\$ 4,301	\$ 6,977	\$ 6,330
Development and lease-up	-	-	-	-
Acquired communities	9	-	34	-
Other segments	357	92	469	191
Total annually recurring capital expenditures	\$ 4,538	\$ 4,393	\$ 7,480	\$ 6,521
Periodically recurring capital expenditures by operating segment				
Fully stabilized communities	\$ 1,896	\$ 1,992	\$ 2,427	\$ 2,909
Development and lease-up	-	-	-	-
Acquired communities	-	-	-	-
Other segments	250	283	1,096	659
Total periodically recurring capital expenditures	\$ 2,146	\$ 2,275	\$ 3,523	\$ 3,568
Total revenue generating capital expenditures	\$ 599	\$ 585	\$ 1,310	\$ 723
Total property capital expenditures per statements of cash flows	\$ 7,283	\$ 7,253	\$ 12,313	\$ 10,812

The Company uses same store annually recurring and periodically recurring capital expenditures as cash flow measures. Same store annually recurring and periodically recurring capital expenditures are supplemental non-GAAP financial measures. The Company believes that same store annually recurring and periodically recurring capital expenditures are important indicators of the costs incurred by the Company in maintaining same store communities. The corresponding GAAP measures include information with respect to the Company's other operating segments consisting of communities stabilized in the prior year, and commercial properties in addition to same store information. Therefore, the Company believes that its presentation of same store annually recurring and periodically recurring capital expenditures is necessary to demonstrate same store replacement costs over time. The Company believes that the most directly comparable GAAP measure to same store annually recurring and periodically recurring capital expenditures is the line on the Company's consolidated statements of cash flows entitled property capital expenditures.

- (3) Average monthly rental rate is defined as the average of the gross actual rental rates for leased units and the average of the anticipated rental rates for unoccupied units, divided by total units.

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- (4) Average economic occupancy is defined as gross potential rent less vacancy losses, model expenses and bad debt expenses divided by gross potential rent for the period, expressed as a percentage, for the applicable period. Gross potential rent is defined as the sum of the gross actual rental rates for leased units and the anticipated rental rates for unoccupied units. The calculation of average economic occupancy does not include a deduction for net concessions and employee discounts. Average economic occupancy, including these amounts, would have been 95.4% and 93.9% for the three months and 95.2% and 93.7% for the six months ended June 30, 2012 and 2011, respectively. For the three months ended June 30, 2012 and 2011, net concessions were \$299 and \$633, respectively, and employee discounts were \$215 and \$200, respectively. For the six months ended June 30, 2012 and 2011, net concessions were \$634 and \$1,430, respectively, and employee discounts were \$424 and \$399, respectively. Physical occupancy is defined as the number of units occupied divided by total apartment units, expressed as a percentage, as of the end of the period.
- (5) Gross turnover represents the percentage of leases expiring during the period that are not renewed by the existing resident(s).
- (6) Percentage change is calculated using the respective new or renewed rental rate as of the date of a new lease, as compared with the previous rental rate on that same unit. Accordingly, these percentage changes may differ from the change in the average monthly rental rate per unit due to the timing of move-ins and/or the term of the respective leases.

#### **Comparison of three months ended June 30, 2012 to three months ended June 30, 2011**

The Operating Partnership reported net income available to common unitholders of \$20,213 for the three months ended June 30, 2012, compared to a net income of \$8,854 for the three months ended June 30, 2011. The Company reported net income available to common shareholders of \$20,157 for the three months ended June 30, 2012, compared to a net income of \$8,824 for the three months ended June 30, 2011. As discussed below, the additional income between periods primarily reflects increased net operating income from fully stabilized communities, increased gains on condominium sales and lower interest expense between periods.

Rental and other revenues from property operations increased \$6,757 or 9.0% from 2011 to 2012 primarily due to increased revenues from the Company's fully stabilized communities of \$5,426 or 7.8% and increased revenues of \$1,091 from acquisition communities in 2012. The revenue increase from acquisition communities in 2012 reflects the acquisition of one apartment community in December 2011. The revenue increase from fully stabilized communities is discussed more fully below. The remaining revenue increase of \$240 primarily reflects increased revenues from the initial lease-up of a development community, from commercial properties due to the acquisition of additional retail space at the mixed-use community acquired in December 2011 and due to the lease-up of recently developed commercial space.

Property operating and maintenance expenses (exclusive of depreciation and amortization) increased \$2,025 or 6.1% from 2011 to 2012 primarily due to increases from fully stabilized communities of \$1,074 or 3.9%, increases of \$508 from acquisition communities, increases of \$238 from development and lease-up communities and increases in other segment expense, including corporate property management expenses, of \$205 or 3.8%. The expense increase from fully stabilized communities is discussed below. The increase from acquisition communities reflects the acquisition of one apartment community in December 2011. The expense increase from development lease-up communities reflects the initial personnel and marketing costs associated with the initial lease-up of one development community. The expense increase from other property segments primarily reflects increased corporate property management expenses resulting from modest increases in annual salaries and estimated cash incentive plan accruals and modest increases in commercial property expenses.

For the three months ended June 30, 2012 and 2011, there were no sales of wholly owned apartment communities. The Company may be a seller of apartment communities in future periods depending on market conditions and consistent with its investment strategy of recycling investment capital to fund investment and development activities and to provide additional cash liquidity, as discussed in the Liquidity and Capital Resources section below. The timing and amount of future gain recognition will fluctuate based on the size and individual age of apartment communities sold.

For the three months ended June 30, 2012 and 2011, gains on condominium sales activities were \$8,530 and \$5,432, respectively. The increase in condominium gains between periods reflects the impact of increased unit closings, 26 closings in 2012 compared to 18 closings in 2011, the impact of improved profit margins at both condominium communities in 2012 and lower on-going condominium carrying costs. Condominium revenues increased by \$3,855 between periods primarily due to the increased unit closings discussed above. Profit margins improved primarily as a result of favorable revisions to the estimated timing and amount of estimated project revenues and costs as the sell-out process is



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approximately three-fourths complete at one community and more than one-third complete at the second community. On-going carrying costs are lower between periods as the remaining units owned by the Company have decreased, resulting in somewhat lower property tax and owners association expenses. See the Operations Overview and Outlook sections for a discussion of expected condominium sale closings at the Company's two luxury condominium communities for the remainder of 2012.

Depreciation expense increased \$689 or 3.7% from 2011 to 2012, primarily due to increased depreciation of \$517 related to the one mixed-use community acquired in December 2011, increased depreciation of \$137 related to the completion of apartment units in the second quarter of 2012 at one of the Company's development and lease-up communities and increased depreciation related to the retail component of properties that were placed in service and partially leased up in 2011.

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### **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

(Unaudited, in thousands, except per share or unit and apartment unit data)

General and administrative expenses decreased \$363, or 8.5%, from 2011 to 2012 primarily as a result of decreased legal and other professional fee expenses of \$670, offset somewhat by increased net personnel costs and expenses resulting from modest increases in compensation and estimated incentive plan accruals in 2012 and higher income tax consulting expenses between years, due to the timing of the services between years. The decrease in legal and other professional fee expenses reflects legal expenses in 2011 related to a legal claim related to work performed at one apartment community and the general timing of legal and other professional fee expenses between years.

Investment and development expenses increased \$26 or 8.8% from 2011 to 2012. In 2012, the capitalization of development personnel to development projects increased by \$286 as the Company continued the development of six apartment communities started in 2012 and in prior years. The increased development capitalization was offset by increased personnel and other costs of \$312 to manage the increased development activity. As a result of the larger volume of development activity in 2012, the Company expects that gross development costs and expenses will increase for the full year 2012, but will be largely offset by the impact of increased capitalization of such costs to related development activity in 2012.

Other investment costs decreased \$149 or 32.7% from 2011 and 2012. Other investment costs primarily include land carry expenses, such as property taxes and assessments. The decrease in 2012 primarily reflects lower carry expenses as such costs were capitalized to communities placed under development in 2011 and early 2012.

Interest expense decreased \$3,334 or 23.1% from 2011 to 2012 primarily due to reduced interest rates on outstanding borrowings and increased interest capitalization in 2012. Gross interest expense decreased by \$2,229 from 2011 to 2012 primarily due to the repayment of a \$184,683, 6.09% secured mortgage note in the fourth quarter of 2011 and \$95,684 of 5.45% senior unsecured notes in June 2012, offset somewhat by increased bank term loan borrowings at an effective rate of approximately 3.5%. Increased interest capitalization on the Company's development projects of \$1,105 primarily related to increased interest capitalization on six apartment communities under development in 2012 compared to five communities in the early stages of development in 2011. The Company expects interest expense for the full year of 2012 to be lower than in 2011 due to decreased average interest rates on outstanding borrowings resulting from debt refinancing activities in late 2011 and early 2012 and due to increased interest capitalization due to increased development cost volumes in 2012.

Equity in income of unconsolidated real estate entities increased \$149 or 43.1% from 2011 to 2012. This increase is primarily a result of increased property net operating income from improved rental market conditions in 2012 and the improved profitability of one unconsolidated entity that refinanced its mortgage indebtedness at lower interest rates in the first quarter of 2012.

For the three months ended June 30, 2012 and 2011, other income, net included estimated state franchise taxes. In 2012, other income also included income of \$843 related to a legal claim associated with work performed at one of the Company's apartment communities and a gain of \$33 from the sale of a technology investment. In 2011, other income, net also included a gain of \$428 from the sale of a technology investment.

Annually recurring and periodically recurring capital expenditures were generally flat from 2011 to 2012. The decrease in periodically recurring capital expenditures of \$129 primarily reflects the timing of capital projects between years. In 2012, decreases primarily reflect reduced water intrusion and structural improvement expenditures at two apartment communities, partially offset by increased structural improvements at one apartment community between years. For the full year 2012, the Company expects periodically recurring capital expenditures to be somewhat consistent with 2011. The increase in annually recurring capital expenditures of \$145 primarily reflects the timing of increased roofing, drainage/foundation improvement, HVAC and landscape expenditures at several communities, partially offset by reduced siding and roofing expenditures at one community in 2012. For the full year 2012, the Company expects annually recurring capital expenditures to be moderately higher than 2011.

#### **Fully stabilized (same store) communities**

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Rental and other revenues increased \$5,426 or 7.8% from 2011 to 2012. This increase resulted from a 6.5% increase in the average monthly rental rate per apartment unit and from a 1.0% increase in average economic occupancy between periods. The increase in average rental rates resulted in a revenue increase of approximately \$4,429 between periods. Average economic occupancy increased from 95.1% in 2011 to 96.1% in 2012. The occupancy increase between periods resulted in lower vacancy losses of \$413 in 2012. The remaining increase in rental and other property revenues of \$584 was primarily due to somewhat higher net leasing and other fees and utility reimbursements and lower net concessions. Average occupancy levels were slightly higher between years due to improved rental market conditions in 2012. The Company expects that rental revenues will continue to increase moderately on a year over year basis in 2012, continuing a trend that began in late 2010. Average rental rate and occupancy increases were primarily due to increasing rental demand resulting from a gradually improving economy, a continued decline in the home ownership rate and due to a modest supply of new apartment communities. See the Outlook section below for an additional discussion of trends for 2012.

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(Unaudited, in thousands, except per share or unit and apartment unit data)

Property operating and maintenance expenses (exclusive of depreciation and amortization) increased \$1,074 or 3.9% from 2011 to 2012. This increase was primarily due to increased property tax expenses of \$1,333 or 14.4% and increased insurance expenses of \$106 or 11.5%. These increases were offset primarily by decreased maintenance expenses of \$304 or 6.4% and decreased ground rent expenses of \$74 or 24.6%. The increase in property tax expenses primarily reflects increased expense accruals in 2012 due to higher real estate valuations by tax authorities in most of the Company's markets. Insurance expenses increased primarily due to higher property insurance rates upon the annual renewal of insurance coverage in the second quarter of 2012. Maintenance expenses decreased primarily as a result of lower exterior painting costs of \$36 between periods as well as lower aggregate repair costs due to the timing of these costs between periods. The decrease in ground rent expenses primarily reflects the termination of a ground lease (through the acquisition of the underlying land) at one of the Company's Atlanta communities in July 2011. See the Outlook section below for a discussion of expense trends for 2012.

#### **Comparison of six months ended June 30, 2012 to six months ended June 30, 2011**

The Operating Partnership reported net income available to common unitholders of \$41,150 for the six months ended June 30, 2012 compared to \$8,432 for the six months ended June 30, 2011. The Company reported net income available to common shareholders of \$41,035 for the six months ended June 30, 2012 compared to \$8,403 for the six months ended June 30, 2011. As discussed below, the additional income between periods primarily reflects increased net operating income from fully stabilized communities, increased gains on condominium sales, increased equity in earnings from unconsolidated entities primarily from a gain on the sale of an apartment community by one of the entities in the first quarter of 2012 and lower interest expense between periods.

Rental and other revenues from property operations increased \$13,496 or 9.1% from 2011 to 2012 primarily due to increased revenues from the Company's fully stabilized communities of \$10,728 or 7.8% and increased revenues of \$2,149 from acquisition communities in 2012. The revenue increase from acquisition communities in 2012 reflects the acquisition of one apartment community in December 2011. The revenue increase from fully stabilized communities is discussed more fully below. The remaining revenue increase of \$619 primarily reflects increased revenues from one development and lease-up community that began delivering and leasing apartment units in the second quarter of 2012 and from commercial properties due to the acquisition of additional retail space at the mixed-use community acquired in December 2011 and due to the lease-up of recently developed commercial space.

Property operating and maintenance expenses (exclusive of depreciation and amortization) increased \$4,045 or 6.1% from 2011 to 2012 primarily due to increases from fully stabilized communities of \$1,936 or 3.5%, increases of \$981 from acquisition communities, increases of \$238 from development and lease-up communities and increases in other segment expense, including corporate property management expenses of \$890, or 8.4%. The expense increase from fully stabilized communities is discussed below. The increase from acquisition communities reflects the acquisition of one apartment community in December 2011. The expense increase from lease-up communities reflects the initial personnel and marketing costs associated with the initial lease-up of one development community. The expense increase from other property segments primarily reflects increased corporate property management expenses of \$431 resulting from modest increases in annual salaries and estimated cash incentive plan accruals, small headcount increases in the property services supervisory team in 2011 and increased net employee termination costs of approximately \$85 and modest increases in commercial property expenses.

For the six months ended June 30, 2012 and 2011, gains on condominium sales activities were \$15,434 and \$6,176, respectively. The condominium gains in 2012 include the impact of a \$612 income tax benefit resulting from the carryback of net operating losses to recover income taxes paid in prior years. The increase in condominium gains between periods reflects the impact of increased unit closings, 45 closings in 2012 compared to 30 closings in 2011, the impact of improved profit margins at both condominium communities in 2012 and lower on-going condominium carrying costs. Condominium revenues increased by \$7,761 between periods primarily due to the impact of increased unit sales discussed above. Profit margins improved primarily as a result of favorable revisions to the estimated timing and amount of estimated project revenues and costs as the sell-out process is approximately three-fourths complete at one community and more than one-third complete at the second community. Finally, on-going carrying costs are lower between periods as the remaining units owned by the Company have decreased, resulting in somewhat lower property tax and owners association expenses. See the Operations Overview and Outlook sections for a discussion

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of expected condominium sale closings at the Company's two luxury condominium communities for the remainder of 2012.

Depreciation expense increased \$1,278 or 3.4% from 2011 to 2012, primarily due to increased depreciation of \$1,037 related to the one mixed-use community acquired in December 2011, increased depreciation of \$137 related to the completion of apartment units in the second quarter of 2012 at one of the Company's development and lease-up communities and increased depreciation related to the retail component of properties that were placed in service and partially leased up in 2011.

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### **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

(Unaudited, in thousands, except per share or unit and apartment unit data)

General and administrative expenses decreased \$194 or 2.3%, from 2011 to 2012 primarily as a result of decreased legal and other professional fee expenses of \$662, offset somewhat by increased net personnel costs and expenses resulting from modest increases in compensation and estimated incentive plan accruals in 2012, higher income tax consulting expenses between years due to the timing of the services between years and the increased costs associated with director transition in 2012. The decrease in legal and other professional fee expenses reflects legal expenses in 2011 related to a legal claim related to work performed at one apartment community and the general timing of legal and other professional fee expenses between years.

Investment and development expenses increased \$28 or 3.6% from 2011 to 2012. In 2012, the capitalization of development personnel to development projects increased by \$623 as the Company continued the development of six apartment communities started in early 2012 and in prior years. The increased development capitalization was offset by increased personnel and other costs of \$651 to manage the increased development activity. As a result of the larger volume of development activity in 2012, the Company expects that gross development costs and expenses will increase for the full year 2012, but will be largely offset by the impact of increased capitalization of such costs to related development activity in 2012.

Other investment costs decreased \$337 or 35.5% from 2011 and 2012. Other investment costs primarily include land carry expenses, such as property taxes and assessments. The decrease in 2012 primarily reflects lower carry expenses as such costs were capitalized to communities placed under development in early 2012.

Interest expense decreased \$6,164 or 21.3% from 2011 to 2012 primarily due to reduced interest rates on outstanding borrowings and increased interest capitalization in 2012. Gross interest expense decreased by \$4,170 from 2011 to 2012 primarily due to the repayment of a \$184,683, 6.09% secured mortgage note in the fourth quarter of 2011, and \$95,684 of 5.45% senior unsecured notes in June 2012, offset somewhat by increased bank term loan borrowings at an effective rate of 3.5%. Increased interest capitalization on the Company's development projects of \$1,994 primarily related to increased interest capitalization on six apartment communities under development in 2012 compared to five communities in the early stages of development in 2011. The Company expects interest expense for the full year of 2012 to be lower than in 2011 due to decreased average interest rates on outstanding borrowings resulting from debt refinancing activities in late 2011 and early 2012 and due to increased interest capitalization due to increased development cost volumes in 2012.

Equity in income of unconsolidated real estate entities was \$6,941 in 2012 compared to \$555 in 2011. The increase in 2012 is primarily due to the recognition of the Company's portion of a gain, totaling \$6,055, from the sale of an apartment community in Atlanta, Georgia at one of the unconsolidated entities, as well as the result of increased property net operating income from improved market conditions in 2012 and the improved profitability of one unconsolidated entity that refinanced its mortgage indebtedness at lower interest rates in the first quarter of 2012.

For the six months ended June 30, 2012 and 2011, other income, net included estimated state franchise taxes. In 2012, other income, net also included income of \$843 related to a legal claim associated with work performed at one of the Company's apartment communities and a gain of \$33 from the sale of a technology investment. For 2011, other income, net also included income of \$150 related to the settlement of a legal claim related to work performed at one of the Company's apartment communities and a gain of \$428 from the sale of a technology investment.

Annually recurring and periodically recurring capital expenditures increased \$914 or 9.1% from 2011 to 2012. The decrease in periodically recurring capital expenditures of \$45 primarily reflects the timing of capital projects between years. In 2012, decreases primarily reflect reduced water intrusion, structural improvements and window replacements at three apartment communities, partially offset by increased structural improvements at one apartment community and increased parking deck, tenant improvement and leasing commission expenditures at an office property in 2012. For the full year 2012, the Company expects periodically recurring capital expenditures to be somewhat consistent with 2011. The increase in annually recurring capital expenditures of \$959 primarily reflects the timing of increased roofing, drainage/foundation improvement, HVAC and landscape expenditures at several communities, partially offset by reduced siding and roofing expenditures at one community in 2012. For the full year 2012, the Company expects annually recurring capital expenditures to be moderately higher than 2011.

**Fully stabilized (same store) communities**

Rental and other revenues increased \$10,728 or 7.8% from 2011 to 2012. This increase resulted from a 6.3% increase in the average monthly rental rate per apartment unit and from a 1.0% increase in average economic occupancy between periods. The increase in average rental rates resulted in a revenue increase of approximately \$8,614 between periods. Average economic occupancy increased from 95.0% in 2011 to 96.0% in 2012. The occupancy increase between periods resulted in lower vacancy losses of \$901 in 2012. The remaining increase in rental and other property revenues of \$1,213 was primarily due to somewhat higher net leasing and other fees and utility reimbursements and lower net concessions. Average occupancy levels were slightly higher between years due to

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improved rental market conditions in 2012. The Company expects that rental revenues will continue to increase moderately on a year over year basis in 2012, continuing a trend that began in late 2010. Average rental rate and occupancy increases were primarily due to increasing rental demand resulting from a gradually improving economy, a continued decline in the home ownership rate and due to a modest supply of new apartment communities. See the Outlook section below for an additional discussion of trends for 2012.

Property operating and maintenance expenses (exclusive of depreciation and amortization) increased \$1,936 or 3.5% from 2011 to 2012. This increase was primarily due to increased property tax expenses of \$2,485 or 13.4% and increased insurance expenses of \$164 or 8.3%. These increases were offset primarily by decreased utility expenses of \$345 or 4.2%, decreased advertising and promotion expenses of \$322 or 15.7% and decreased ground rent expenses of \$140 or 23.3%. The increase in property tax expenses primarily reflects increased expense accruals in 2012 due to higher real estate valuations by tax authorities in most of the Company's markets. Insurance expenses increased primarily due to higher property insurance rates upon the annual renewal of the insurance coverage in the second quarter of 2012. The decrease in utility expenses is primarily due to \$239 of sales tax refunds in the Company's Texas markets resulting from the recovery of sales taxes on certain electric bills incurred in prior years. The decrease in advertising and promotion expenses primarily reflects reduced advertising expenditures and lower apartment locator costs resulting from improved market conditions. The decrease in ground rent expenses primarily reflects the termination of a ground lease (through the acquisition of the underlying land) at one of the Company's Atlanta communities in July 2011. See the Outlook section below for a discussion of expense trends for 2012.

**Outlook**

The outlook and assumptions presented below are forward-looking and are based on the Company's future view of apartment and condominium markets and of general economic conditions, as well as other risks outlined above under the caption Disclosure Regarding Forward-Looking Statements. There can be no assurance that the Company's actual results will not differ materially from the outlook and assumptions set forth below. The Company assumes no obligation to update this outlook in the future.

The Company's outlook for 2012 is based on the expectation that economic and employment conditions will continue to gradually improve. However, there continues to be significant risks and uncertainty in the economy and the unemployment rate continues to be higher than normal. If the economic recovery was to stall or U.S. economic conditions were to worsen, the Company's operating results would be adversely affected. Furthermore, the supply of new apartment units has remained relatively low over the past year or so, which coupled with improving multi-family housing demand in the Company's markets, has generally supported improved operating fundamentals in the multi-family rental markets. The environment for multi-family rental development starts has also been improving, and the Company expects that, over time, this will impact competitive supply in the markets in which it operates.

Rental and other revenues from fully stabilized communities are expected to increase moderately for the full year 2012, compared to 2011, driven primarily by new and renewed leases being completed at moderately higher market rental rates as the Company expects to generally maintain occupancy levels modestly higher than or relatively consistent with 2011. Operating expenses of fully stabilized communities are also expected to moderately increase in 2012. On a year-over-year basis, the Company expects property tax and insurance expenses to be the largest contributors to operating expense growth. As a result, management expects fully stabilized community net operating income to increase moderately for the full year 2012, which is expected to positively impact the Company's results of operations. Management also expects that net operating deficits from newly developed communities commencing lease-up in 2012 will modestly offset net operating income growth from stabilized community operations.

Management expects general and administrative, property management and investment and development expenses, net of amounts capitalized to development projects, to increase modestly in 2012, compared to 2011.

Management expects interest expense for the full year 2012 to be meaningfully lower than in 2011 due in part to increased interest capitalization in 2012, compared to 2011, resulting from the development of apartment projects under development and construction, as well as new



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construction starts in 2012, and in larger part on the following capital activities: (1) \$184,683 of 6.09% secured mortgage debt prepaid in December 2011, (2) \$95,684 of 5.45% unsecured senior notes repaid at maturity in June 2012, (3) \$300,000 of borrowings on the Company's unsecured bank term loan facility, at an effective average fixed rate of approximately 3.44% and (4) approximately \$53,267 of 5.50% secured mortgage debt anticipated to be prepaid at par in October 2012 (such mortgage debt matures in January 2013).

The Company, through a taxable REIT subsidiary, expects to continue closing unit sales at its Austin Condominium Project and at its Atlanta Condominium Project in 2012. The amount of revenue and profits or losses recognized from condominium sales will depend on the timing, volume and pricing of actual closings. There can be no assurance that any sales will close or that any profits will be realized. The Company may record net losses from condominium activities in future quarterly periods if gross profits from condominium sales are not sufficient to cover the expensed administrative, marketing, sales and other carrying costs (principally

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property taxes, homeowners' association dues and utilities) of the communities. Furthermore, if the sales mix, sales velocity and unit pricing varies significantly from the valuation models for each of the condominium projects, it could cause condominium profits to differ materially from the Company's expectations, and further, could cause the Company to re-evaluate its valuation models and assumptions which could result in additional impairment losses in future periods (see "Operations Overview" above where discussed further).

The Company currently expects to utilize available borrowing capacity under its unsecured bank credit facilities as well as net proceeds from on-going condominium sales and its at-the-market common equity programs to fund future estimated construction expenditures. As a result of expected additional at-the-market common equity sales, the Company expects weighted average diluted shares to increase for the full year 2012, compared to 2011. Sales under the at-the-market common equity program will depend upon a variety of factors, including, among others, market conditions and the trading price of the Company's common stock relative to other sources of capital.

**Liquidity and capital resources**

The discussion in this Liquidity and Capital Resources section is the same for the Company and the Operating Partnership, except that all indebtedness described herein has been incurred by the Operating Partnership.

The Company's net cash provided by operating activities increased from \$48,429 for the six months ended June 30, 2011 to \$68,018 for the six months ended June 30, 2012 primarily due to increased property net operating income in 2012 from fully stabilized communities and reduced interest expense in 2012. For the full year 2012, the Company expects cash flows from operating activities to increase moderately consistent with its outlook for multi-family operating results provided above, and due to lower interest expense resulting from the refinancing of certain indebtedness and lines of credit at lower rates in late 2011 and early 2012, as discussed below, and from increased interest capitalization to development communities in 2012.

Net cash flows used in investing activities increased from \$16,070 for the six months ended June 30, 2011 to \$32,960 for the six months ended June 30, 2012 primarily due to increased construction and development expenditures relating to an increased development pipeline in 2012, offset somewhat by higher net proceeds from sales of condominium assets and from the sale of one apartment community in an unconsolidated entity in 2012. For the full year 2012, the Company expects to continue to incur development expenditures on current and possible new development starts. The Company does not currently expect to sell any wholly-owned apartment communities in 2012.

Net cash flows from financing activities changed from net cash used in financing activities of \$25,493 for the six months ended June 30, 2011 to net cash provided by financing activities of \$3,486 for the six months ended June 30, 2012 primarily due to the net redemption of the Company's Series B preferred stock in 2011. For the full year 2012, the Company expects that its outstanding debt may increase modestly, depending on the level of proceeds from the Company's at-the-market common equity program (discussed below), principally to fund the expected development expenditures discussed above.

Since 1993, the Company has elected to be taxed as a REIT under the Internal Revenue Code. Management currently intends to continue operating the Company as a REIT in 2012. As a REIT, the Company is subject to a number of organizational and operating requirements, including a requirement to distribute 90% of its adjusted taxable income to its shareholders. As a REIT, the Company generally will not be subject to federal income taxes on its taxable income it distributes to its shareholders.

Generally, the Company's objective is to meet its short-term liquidity requirement of funding the payment of its current level of quarterly preferred and common stock dividends to shareholders through its net cash flows provided by operating activities, less its annual recurring and periodically recurring property and corporate capital expenditures. These operating capital expenditures are the capital expenditures necessary to maintain the earnings capacity of the Company's operating assets over time.

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For the six months ended June 30, 2012, the Company's net cash flow from operations, reduced by annual operating capital expenditures, was sufficient to fully fund the Company's dividend payments to common and preferred shareholders.

In May 2012, the Company's board of directors increased the quarterly dividend rate from \$0.22 to \$0.25 per common share. The Company currently expects to maintain its current quarterly dividend payment rate to common shareholders of \$0.25 per share for the remainder of 2012. However, future dividend payments by the Company will be paid at the discretion of the board of directors and will depend on the actual funds from operations of the Company, the Company's financial condition and capital requirements, the annual distribution requirements under the REIT provisions of the Internal Revenue Code and other factors that the board of directors deems relevant. The Company's board of directors reviews the dividend quarterly, and there can be no assurance that the current dividend level will be maintained.

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To the extent the Company continues to pay dividends at this dividend rate, the Company expects to use net cash flows from operations reduced by annual operating capital expenditures to fund the dividend payments to common and preferred shareholders. The Company expects to use cash and cash equivalents and, if its net cash flows from operations are not sufficient to meet its anticipated dividend payment rate, line of credit borrowings to fund dividend payments. The Company's dividends can be paid as a combination of cash and stock in order to satisfy the annual distribution requirements applicable to REITs. To the extent that management considers it advisable to distribute gains from any future asset sales to shareholders in the form of a special dividend, the Company may pay a portion of such dividend in the form of stock to preserve liquidity. The Company's net cash flow from operations continues to be sufficient to meet the dividend requirements necessary to maintain its REIT status under the Code.

The Company generally expects to utilize net cash flow from operations, available cash and cash equivalents and available capacity under its revolving lines of credit to fund its short-term liquidity requirements, including capital expenditures, dividends and distributions on its common and preferred equity and its debt service requirements. The Company generally expects to fund its long-term liquidity requirements, including maturities of long-term debt and acquisition and development activities, through long-term unsecured and secured borrowings, through on-going condominium sales, possibly through the sale of selected operating communities, through net proceeds from the Company's at-the-market common equity programs and possibly through equity or leveraged joint venture arrangements. As it has done in the past, the Company may also use joint venture arrangements in future periods to reduce its market concentrations in certain markets, build critical mass in other markets and to reduce its exposure to certain risks of its future development activities.

As previously discussed, the Company has used the proceeds from the sale of selected operating communities and condominium homes as one means of funding its development and acquisition activities. Total net sales proceeds from operating community, condominium and land sales for the six months ended June 30, 2012 and for the full year of 2011 were \$39,981 and \$59,469, respectively. For the six months ended June 30, 2012, the Company also received a distribution of net sales proceeds of \$6,869 from the sale of one community held by an unconsolidated entity. Proceeds from these asset sales were used to pay down the Company's borrowings under its unsecured revolving lines of credit and increase available cash and cash equivalent balances. As of June 30, 2012, the Company had no apartment communities held for sale. The Company expects to generate additional net sales proceeds from the closing of condominium units at the Austin and Atlanta Condominium Projects for the remainder of 2012 (see 2012 Outlook above where discussed further).

In May 2012, the Company adopted a new at-the-market ( ATM ) common equity sales program for the sale of up to 4,000 shares of common stock. At June 30, 2012, the Company had approximately 4,137 shares remaining for issuance under its new and prior ATM programs. The Company has used and expects to continue to use this program as an additional source of capital and liquidity and to maintain the strength of its balance sheet. For the six months ended June 30, 2012 and the full year 2011, the Company sold 414 and 3,409 shares for gross proceeds of \$19,159 and \$138,628, respectively. The average gross sales prices per share were \$46.33 and \$40.67 for the six months ended June 30, 2012 and the full year of 2011, respectively. The Company's net proceeds totaled \$18,625 and \$135,651 for the six months ended June 30, 2012 and for the full year 2011, respectively. Sales under the program will be dependent on a variety of factors, including, among others, market conditions and the trading price of the Company's common stock relative to other sources of capital.

As of June 30, 2012, the Company's aggregate pipeline of six apartment communities under development totaled approximately \$300,400, of which approximately \$138,000 remained to be incurred by the Company as of June 30, 2012. The Company may also begin additional developments later in 2012. The Company currently expects to utilize available borrowing capacity under its unsecured bank credit facilities as well as net proceeds from on-going condominium sales and its at-the-market common equity programs to fund future estimated construction expenditures.

In January 2012, the Company amended its unsecured revolving line of credit facility (the Syndicated Line ). The Syndicated Line was provided by a syndicate of eleven financial institutions. The Syndicated Line provides for a \$300,000 unsecured revolving line of credit which has a four-year term maturing in January 2016, with a one-year extension option. The credit facility has a current stated interest rate of the London Interbank Offered Rate (LIBOR) plus 1.40% and requires the payment of annual facility fees currently equal to 0.30% of the aggregate loan

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commitments. The Syndicated Line provides for the interest rate and facility fee rate to be adjusted up or down based on changes in the credit ratings of the Company's senior unsecured debt. The Syndicated Line also includes an uncommitted competitive bid option for borrowings up to half of the total available loan commitments, as long as the Company maintains its investment grade credit rating. This option allows participating banks to bid to provide the Company loans at a rate which may be lower than the stated rate for syndicated borrowings, depending on market conditions. The credit facility contains representations, financial and other affirmative and negative covenants, events of defaults and remedies typical for this type of facility.

In January 2012, the Company also amended its unsecured revolving line of credit agreement (the Cash Management Line), providing for a \$30,000 unsecured cash management line of credit which has a four-year term maturing in January 2016, with a one-year

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extension option. The Cash Management Line carries pricing and terms, including financial covenants, substantially consistent with those of the Syndicated Line described above.

In January 2012, the Company entered into a new unsecured bank term loan facility (the "Term Loan"), provided by a syndicate of eight financial institutions, which provides for a \$300,000 unsecured bank term loan and has an initial six-year term maturing in January 2018, with two six-month extension options. The Term Loan has a current stated interest rate of LIBOR plus 1.90% and required the payment of unused facility fees equal to 0.25% of the aggregate undrawn loan commitments through July 2, 2012. The Term Loan provides for the interest rate to be adjusted up or down based on changes in the credit ratings of the Company's senior unsecured debt. The Term Loan contains representations, financial and other affirmative and negative covenants, events of defaults and remedies typical for this type of facility, and which are substantially consistent with those of the Syndicated Line described above. The Company separately entered into interest rate swap arrangements to fix the variable interest cost associated with this Term Loan, resulting in an initial effective average fixed interest rate, once fully drawn, of approximately 3.44% (subject to any adjustment based on subsequent changes in the Company's credit ratings).

The \$100,000 borrowed under the Term Loan at closing was used to pay down a portion of the outstanding balance under the revolving credit facility and to pay related fees and expenses. On May 31, 2012, the Company borrowed an additional \$130,000, which was used primarily to retire \$95,684 of 5.45% senior unsecured notes at maturity. On July 2, 2012, the Company borrowed the remaining available capacity of \$70,000 available under the Term Loan, which will be used for general business purposes, including the repayment of approximately \$53,267 of 5.50% secured mortgage notes that become open for prepayment at par in October 2012 (such mortgage debt matures in January 2013).

As of July 27, 2012, the Company had cash and cash equivalents of approximately \$38,700. Additionally, the Company had no outstanding borrowings and \$575 of outstanding letters of credit under its \$330,000 combined unsecured revolving line of credit facilities. The terms, conditions and restrictive covenants associated with the Company's unsecured revolving line of credit facilities, Term Loan (discussed further below) and senior unsecured notes are summarized in note 4 to the consolidated financial statements. Management believes the Company was in compliance with the covenants of the Company's unsecured revolving lines of credit, Term Loan and senior unsecured notes at June 30, 2012.

Management believes it will have adequate capacity under its unsecured revolving lines of credit and Term Loan to execute its 2012 business plan and meet its short-term liquidity requirements. The Company currently believes that it will continue to have access to additional equity capital, unsecured debt financing and secured debt financing through loan programs sponsored by Fannie Mae, Freddie Mac and other secured lenders. In the past, the Company has utilized loan programs sponsored by Fannie Mae and Freddie Mac as a key source of capital to finance its growth and its operations. Should these entities discontinue providing liquidity to the Company's sector, it could significantly reduce the Company's access to debt capital and/or increase borrowing costs and could adversely affect the development of multi-family homes. In addition, the amount and timing of any new debt financings may be limited by restrictive covenants under the Company's current unsecured debt arrangements, such as coverage ratios and limitations on aggregate secured debt as a percentage of total assets, as defined. There can be no assurances that such secured financing will continue to be available through U.S. government sponsored programs and other secured lenders or that the Company's access to additional debt financings will not be limited by its financial covenants.

#### **At-the-market common equity sales program**

In May 2012, the Company adopted a new at-the-market ("ATM") common equity sales program for the sale of up to 4,000 shares of common stock. At June 30, 2012, the Company had approximately 4,137 shares remaining for issuance under its new and prior ATM programs. The Company has used and expects to continue to use this program as an additional source of capital and liquidity and to maintain the strength of its balance sheet. For the three and six months ended June 30, 2012, the Company sold 97 and 414 shares for gross proceeds of \$4,847 and \$19,159, respectively. The average gross sales prices per share were \$50.23 and \$46.33 for the three and six months ended June 30, 2012, respectively. The Company's sales of common shares produced net proceeds totaling \$4,643 and \$18,625 for the three and six months ended June 30, 2012, respectively. Underwriter commissions paid totaled \$73 and \$359 for the three and six months ended June 30, 2012, respectively. For the full year 2011, the Company sold 3,409 shares for gross proceeds of \$138,628 at an average gross sales price per share of \$40.67, producing net

proceeds of \$135,651.

**Stock and debt repurchase programs**

In December 2010, the Company's board of directors adopted a stock and unsecured note repurchase program under which the Company and the Operating Partnership may repurchase up to \$200,000 of common and preferred stock and unsecured notes through December 31, 2012. There were no shares of common stock repurchased for the six months ended June 30, 2012 or for the full year of 2011 under this program. The Company repurchased its 7 5/8% Series B preferred stock at its redemption value of \$49,571 during the six months ended June 30, 2011 under this program.

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**Capitalization of fixed assets and community improvements**

The Company has a policy of capitalizing those expenditures relating to the acquisition of new assets and the development and construction of new apartment communities. In addition, the Company capitalizes expenditures that enhance the value of existing assets and expenditures that substantially extend the life of existing assets. All other expenditures necessary to maintain a community in ordinary operating condition are expensed as incurred. Additionally, for new development communities, carpet, vinyl and blind replacements are expensed as incurred during the first five years (which corresponds to the estimated depreciable life of these assets) after construction completion. Thereafter, these replacements are capitalized. Further, the Company expenses as incurred interior and exterior painting of operating communities, unless those communities are under rehabilitation or major remediation.

The Company capitalizes interest, real estate taxes, and certain internal personnel and associated costs related to apartment communities under development, construction and rehabilitation. The incremental personnel and associated costs are capitalized to the projects under development and rehabilitation based upon the effort associated with such projects. The Company treats each unit in an apartment community separately for cost accumulation, capitalization and expense recognition purposes. Prior to the commencement of leasing activities, interest and other construction costs are capitalized and included in construction in progress. The Company ceases the capitalization of such costs as the residential units in a community become substantially complete and available for occupancy. This practice results in a proration of these costs between amounts that are capitalized and expensed as the residential units in a development community become available for occupancy. In addition, prior to the completion of units, the Company expenses, as incurred, substantially all operating expenses (including pre-opening marketing expenses) of such communities.

Acquisition of assets and community development and other capitalized expenditures for the three and six months ended June 30, 2012 and 2011 are summarized as follows:

	<b>Three months ended June 30,</b>		<b>Six months ended June 30,</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
<b>New community development and acquisition activity (1)</b>	\$ 43,135	\$ 20,652	\$ 74,366	\$ 34,539
<b>Periodically recurring capital expenditures</b>				
Community rehabilitation and other revenue generating improvements (2)	599	585	1,310	723
Other community additions and improvements (3)	2,146	2,275	3,523	3,568
<b>Annually recurring capital expenditures</b>				
Carpet replacements and other community additions and improvements (4)	4,538	4,393	7,480	6,521
Corporate additions and improvements	366	336	445	486
	\$ 50,784	\$ 28,241	\$ 87,124	\$ 45,837
<b>Other Data</b>				
Capitalized interest	\$ 1,679	\$ 574	\$ 3,000	\$ 1,006
Capitalized development and associated costs (5)	\$ 913	\$ 627	\$ 1,719	\$ 1,096



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- (1) Reflects aggregate land and community development and acquisition costs, exclusive of assumed debt and the change in construction payables between years.  
There was no acquisition activity for the three and six months ended June 30, 2012 or 2011.
- (2) Represents expenditures for major renovations of communities and other upgrade costs that enhance the rental value of such units.
- (3) Represents property improvement expenditures that generally occur less frequently than on an annual basis.
- (4) Represents property improvement expenditures of a type that are expected to be incurred on an annual basis.
- (5) Reflects development personnel and associated costs capitalized to construction and development activities.

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**Current communities under development**

At June 30, 2012, the Company had 1,810 apartment units in six communities under development. These communities are summarized in the table below (\$ in millions).

Community	Location	Number of Units	Retail Sq. Ft. (1)	Estimated Total Cost (2)	Costs Incurred as of 06/30/2012	Quarter of First Units Available	Estimated Quarter of Stabilized Occupancy (3)	Percent Leased (4)
Post Carlyle Square Phase II	Wash. DC	344	-	\$ 89.0	\$ 77.7	2Q 2012	4Q 2013	20.0%
Post South Lamar	Austin, TX	298	8,555	41.7	27.4	3Q 2012	4Q 2013	N/A
Post Midtown Square® Phase III	Houston, TX	124	10,864	21.8	14.2	3Q 2012	4Q 2013	N/A
Post Lake® at Baldwin Park Phase III	Orlando, FL	410	-	58.6	17.9	1Q 2013	3Q 2014	N/A
Post Parkside at Wade Phase I	Raleigh, NC	392	18,148	55.0	17.4	1Q 2013	3Q 2014	N/A
Post Richmond Avenue	Houston, TX	242	-	34.3	7.8	3Q 2013	4Q 2014	N/A
<b>Total</b>		<b>1,810</b>	<b>37,567</b>	<b>\$ 300.4</b>	<b>\$ 162.4</b>			

(1) Square footage amounts are approximate. Actual square footage may vary.

(2) To the extent that developments contain a retail component, total estimated cost includes estimated first generation tenant improvements and leasing commissions.

(3) The Company defines stabilized occupancy as the earlier to occur of (i) the attainment of 95% physical occupancy on the first day of any month or (ii) one year after completion of construction.

(4) Represents unit status as of July 27, 2012.

**Inflation**

Substantially all of the leases at the Company's communities allow, at the time of renewal, for adjustments in the rent payable thereunder, and thus may enable the Company to seek increases in rents. The substantial majority of these leases are for one year or less and the remaining leases are for up to two years. At the expiration of a lease term, the Company's lease agreements generally provide that the term will be extended unless either the Company or the lessee gives at least sixty (60) days written notice of termination. In addition, the Company's policy generally permits the earlier termination of a lease by a lessee upon thirty (30) days written notice to the Company and the payment of an amount equal to two months rent as compensation for early termination. The short-term nature of these leases generally serves to offset the risk to the Company that the adverse effect of inflation may have on the Company's general, administrative and operating expenses.

**Funds from operations**

The Company uses the National Association of Real Estate Investment Trusts (NAREIT) definition of funds from operations (FFO). FFO is defined by NAREIT as net income available to common shareholders determined in accordance with GAAP, excluding gains (or losses) from extraordinary items and sales of depreciable property, plus depreciation of real estate assets, and after adjustment for unconsolidated partnerships and joint ventures all determined on a consistent basis in accordance with GAAP. FFO is a supplemental non-GAAP financial measure. FFO presented herein is not necessarily comparable to FFO presented by other real estate companies because not all real estate companies use the same definition. The Company's FFO is comparable to the FFO of real estate companies that use the current NAREIT definition.

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The Company also uses FFO as an operating measure. Accounting for real estate assets using historical cost accounting under GAAP assumes that the value of real estate assets diminishes predictably over time. NAREIT stated in its April 2002 White Paper on Funds from Operations since real estate asset values have historically risen or fallen with market conditions, many industry investors have considered presentations of operating results for real estate companies that use historical cost accounting to be insufficient by themselves. As a result, the concept of FFO was created by NAREIT for the REIT industry to provide an alternate measure. Since the Company agrees with the concept of FFO and appreciates the reasons surrounding its creation, management believes that FFO is an important supplemental measure of operating performance. In addition, since most equity REITs provide FFO information to the investment community, the Company believes FFO is a useful supplemental measure for comparing the Company's results to those of other equity REITs. The Company believes that the line on the Company's consolidated statement of operations entitled "net income available to common shareholders" is the most directly comparable GAAP measure to FFO.

FFO should not be considered as an alternative to net income available to common shareholders (determined in accordance with GAAP) as an indicator of the Company's financial performance. While management believes that FFO is an important supplemental non-GAAP financial measure, management believes it is also important to stress that FFO should not be considered as an alternative

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to cash flow from operating activities (determined in accordance with GAAP) as a measure of the Company's liquidity. Further, FFO is not necessarily indicative of sufficient cash flow to fund all of the Company's needs or ability to service indebtedness or make distributions.

A reconciliation of net income available to common shareholders to FFO available to common shareholders and unitholders for the three and six months ended June 30, 2012 and 2011 was as follows.

	<b>Three months ended June 30,</b>		<b>Six months ended June 30,</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
<b>Net income available to common shareholders</b>	\$ 20,157	\$ 8,824	\$ 41,035	\$ 8,403
Noncontrolling interests Operating Partnership	56	30	115	29
Depreciation on consolidated real estate assets	19,156	18,461	38,159	36,864
Depreciation on real estate assets held in unconsolidated entities	285	362	623	722
Gains on sales of depreciable real estate assets unconsolidated entities	-	-	(6,055)	-
<b>Funds from operations available to common shareholders and unitholders (1)</b>	<b>\$ 39,654</b>	<b>\$ 27,677</b>	<b>\$ 73,877</b>	<b>\$ 46,018</b>
Weighted average shares outstanding basic (2)	53,902	50,044	53,554	49,621
Weighted average shares and units outstanding basic (2)	54,053	50,213	53,705	49,791
Weighted average shares outstanding diluted (2)	54,225	50,435	53,923	50,015
Weighted average shares and units outstanding diluted (2)	54,376	50,604	54,074	50,185

(1) For the six months ended June 30, 2012, FFO included a loss on early extinguishment of indebtedness of \$301. For the six months ended June 30, 2011, FFO included \$1,757 of preferred stock redemption costs.

(2) Diluted weighted average shares and units include the impact of dilutive securities totaling 323 and 391 for the three months and 369 and 394 for the six months ended June 30, 2012 and 2011, respectively. Basic and diluted weighted average shares and units included the impact of non-vested shares and units totaling 130 and 169 for the three months and 124 and 161 for the six months ended June 30, 2012 and 2011, respectively, for the computation of funds from operations per share. Such non-vested shares and units are considered in the income (loss) per share computations under generally accepted accounting principles using the two-class method.

**Table of Contents****ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The Company's primary market risk exposure is interest rate risk. At June 30, 2012, the Company had outstanding variable rate debt of \$230,000 tied to LIBOR under its unsecured line of credit arrangements and under its bank term loan facility (see note 4 to the consolidated financial statements). In addition, the Company has interest rate risk associated with fixed rate debt. The discussion in this section is the same for the Company and the Operating Partnership, except that all indebtedness described herein has been incurred by the Operating Partnership.

Management has and will continue to manage interest rate risk as follows:

- maintain a conservative ratio of fixed rate, long-term debt to total debt such that variable rate exposure is kept at an acceptable level;
- fix certain long-term variable rate debt through the use of interest rate swaps or interest rate caps with appropriately matching maturities;
- use derivative financial instruments where appropriate to fix rates on anticipated debt transactions; and
- take advantage of favorable market conditions for long-term debt and/or equity.

Management uses various financial models and advisors to achieve these objectives.

The table below provides information, including the fair value measured in accordance with ASC Topic 815, about the Company's derivative financial instruments that are sensitive to changes in interest rates. For the Company's interest rate swap arrangements, the table presents notional amounts and weighted average interest rates by (expected) contractual maturity dates. Notional amounts are used to calculate the contractual payments to be exchanged under the contract.

Interest Rate Derivatives	Hedged Debt Instrument	Notional Amount	Average Fixed Pay Rate	Average Receive Rate	Termination Date	Fair Value Asset (Liab.)
Interest rate swaps variable to fixed (three) (1)				one-month		
	Term loan borrowings	\$100,000 increasing to \$230,000 (1)	1.55%	LIBOR	1/19/2018	\$ (7,756)
Interest rate swaps variable to fixed (one) (2)				one-month		
	Term loan borrowings	\$70,000 (2)	1.50%	LIBOR	1/19/2018	\$ (2,151)
						\$ (9,907)

(1) Cash payments under the arrangements began in January 2012 based on aggregate notional amounts of \$100,000. Additional cash payments under the arrangement based on the additional notional amount of \$130,000 began in June 2012.

(2) Cash payments under this arrangement began in July 2012.

As more fully described in note 8 to the consolidated financial statements, the interest rate swap arrangements are carried on the consolidated balance sheet at the fair value shown above in accordance with ASC Topic 815.

Additionally, other than the renewal of the Company's line of credit arrangements, entering into the bank term loan facility (see note 4 to consolidated financial statements) during the first half of 2012 and the retirement of \$95,684 of 5.45% senior unsecured notes in June 2012, there were no material changes in outstanding fixed or variable rate debt arrangements in 2012. The Company has no floating rate LIBOR-based borrowings outstanding as of June 30, 2012, excluding the variable rate debt effectively swapped to fixed rates under the derivative financial instruments. As such, fluctuations in such loans would have no effect on the Company's interest costs.

**ITEM 4. CONTROLS AND PROCEDURES**

As required by Securities and Exchange Commission rules, the Company and the Operating Partnership have evaluated the effectiveness of the design and operation of their disclosure controls and procedures as of the end of the period covered by this quarterly report on Form 10-Q. This

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evaluation was carried out under the supervision and with the participation of the management of the Company and the Operating Partnership, including the principal executive officer and principal financial officer. Based on this evaluation, these officers have concluded that the design and operation of the Company's and the Operating Partnership's disclosure controls and procedures were effective as of the end of the period covered by this quarterly report on Form 10-Q. Disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 as amended (the "Exchange Act")) are the controls and other procedures of the Company and the Operating Partnership that are designed to ensure that

## **Table of Contents**

information required to be disclosed by the Company and the Operating Partnership in the reports that they file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms.

There were no changes to the Company's or the Operating Partnership's internal controls over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act) during the period covered by this report that materially affected, or are reasonably likely to materially affect, the Company's or the Operating Partnership's internal control over financial reporting.

## **PART II. OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

(\$ in thousands)

In September 2010, the United States Department of Justice (the "DOJ") filed a lawsuit against the Company and the Operating Partnership in the United States District Court for the Northern District of Georgia. The suit alleges various violations of the Fair Housing Act ("FHA") and the Americans with Disabilities Act ("ADA") at properties designed, constructed or operated by the Company and the Operating Partnership in the District of Columbia, Virginia, Florida, Georgia, New York, North Carolina and Texas. The plaintiff seeks statutory damages and a civil penalty in unspecified amounts, as well as injunctive relief that includes retrofitting apartments and public use areas to comply with the FHA and the ADA and prohibiting construction or sale of noncompliant units or complexes. The Company and the Operating Partnership filed a motion to transfer the case to the United States District Court for the District of Columbia, where a previous civil case involving alleged violations of the FHA and ADA by the Company and the Operating Partnership was filed and ultimately dismissed. On October 29, 2010, the United States District Court for the Northern District of Georgia issued an opinion finding that the complaint shows that the DOJ's claims are essentially the same as the previous civil case, and, therefore, granted the Company and the Operating Partnership's motion and transferred the DOJ's case to the United States District Court for the District of Columbia. Limited discovery is proceeding as permitted by the Court. Due to the preliminary nature of the litigation, it is not possible to predict or determine the outcome of the legal proceeding, nor is it possible to estimate the amount of loss, if any, that would be associated with an adverse decision.

The Company and the Operating Partnership are involved in various other legal proceedings incidental to their business from time to time, most of which are expected to be covered by liability or other insurance. Management of the Company and Operating Partnership believes that any resolution of pending proceedings or liability to the Company or Operating Partnership which may arise as a result of these various other legal proceedings will not have a material adverse effect on the Company or Operating Partnership's results of operations or financial position.

### **ITEM 1A. RISK FACTORS**

There were no material changes in the Registrants' Risk Factors as previously disclosed in Item 1A of the Registrants' Annual Report on Form 10-K for the year ended December 31, 2011.

**Table of Contents****ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

(a) None.

(b) Not applicable.

(c) The following table summarizes the Company's purchases of its equity securities for the three months ended June 30, 2012 (in thousands, except shares and per share amounts).

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (1)
April 1, 2012				
April 30, 2012	-	\$ -	-	\$ 150,429
May 1, 2012				
May 31, 2012	-	-	-	\$ 150,429
June 1, 2012				
June 30, 2012	-	-	-	\$ 150,429
Total	-	\$ -	-	\$ 150,429

- (1) In the fourth quarter of 2010, the Company's board of directors approved a stock repurchase program under which the Company may repurchase up to \$200,000 of common or preferred stock and unsecured notes through December 31, 2012.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. MINE SAFETY DISCLOSURES**

None.

**ITEM 5. OTHER INFORMATION**

None.



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### **ITEM 6. EXHIBITS**

Certain exhibits required by Item 601 of Regulation S-K have been filed with previous reports by the Registrants and are incorporated by reference herein.

The Registrants agree to furnish a copy of all agreements relating to long-term debt upon request of the SEC.

<b>Exhibit No.</b>	<b>Description</b>
3.1(a) -	Articles of Incorporation of the Company
3.2(b) -	Articles of Amendment to the Articles of Incorporation of the Company
3.3(b) -	Articles of Amendment to the Articles of Incorporation of the Company
3.4(b) -	Articles of Amendment to the Articles of Incorporation of the Company
3.5(c) -	Articles of Amendment to the Articles of Incorporation of the Company
3.6(d) -	Bylaws of the Company (as Amended and Restated effective as of June 9, 2009)
4.1(e) -	Indenture between the Company and U.S. Bank National Association, as Trustee
4.2(f) -	First Supplemental Indenture to the Indenture between the Operating Partnership and U.S. Bank National Association, as Trustee
10.1(g) -	Distribution Agreement, dated May 31, 2012 among the Company, the Operating Partnership and J.P. Morgan Securities LLC
10.2(g) -	Distribution Agreement, dated May 31, 2012 among the Company, the Operating Partnership and Wells Fargo Securities, LLC
10.3(g) -	Distribution Agreement, dated May 31, 2012 among the Company, the Operating Partnership and Cantor Fitzgerald & Co.
10.4(g) -	Distribution Agreement, dated May 31, 2012 among the Company, the Operating Partnership and Mitsubishi UFJ Securities (USA), Inc.
11.1(h) -	Statement Regarding Computation of Per Share Earnings
31.1 -	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended, and adopted under Section 302 of the Sarbanes-Oxley Act of 2002
31.2 -	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended, and adopted under Section 302 of the Sarbanes-Oxley Act of 2002
32.1 -	Certification of the Chief Executive Officer pursuant to 18 U.S.C. 1350, as adopted under Section 906 of the Sarbanes-Oxley Act of 2002
32.2 -	Certification of the Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted under Section 906 of the Sarbanes-Oxley Act of 2002
101 -	The following financial information for the Company and the Operating Partnership, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Equity and Accumulated Earnings, (iv) the Consolidated Statements of Cash Flows, and (v) the Notes to the Consolidated Financial Statements.

- (a) Filed as an exhibit to the Registration Statement on Form S-11 (SEC File No. 33-61936), as amended, of the Company and incorporated herein by reference.
- (b) Filed as an exhibit to the Annual Report on Form 10-K of the Registrants for the year ended December 31, 2002 and incorporated herein by reference.
- (c) Filed as an exhibit to the Quarterly Report on Form 10-Q of the Registrants for the quarter ended September 30, 1999 and incorporated herein by reference.
- (d) Filed as an exhibit to the current Report on Form 8-K of the Registrants filed on February 12, 2009 and incorporated herein by reference.
- (e) Filed as an exhibit to the Registration Statement on Form S-3 (SEC File No. 333-42884), as amended, of the Company and incorporated herein by reference.
- (f) Filed as an exhibit to the Registration Statement on Form S-3ASR (SEC File No. 333-139581) of the Company and incorporated herein by reference.
- (g) Filed as an exhibit to the current Report on Form 8-K of the Registrants filed on May 31, 2012 and incorporated herein by reference.
- (h) The information required by this exhibit is included in notes 6 and 7 to the consolidated financial statements and is incorporated herein by reference.



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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

POST PROPERTIES, INC.

August 7, 2012

By /s/ David P. Stockert  
David P. Stockert  
President and Chief Executive Officer  
(Principal Executive Officer)

August 7, 2012

By /s/ Christopher J. Papa  
Christopher J. Papa  
Executive Vice President and Chief Financial Officer  
(Principal Financial Officer)

August 7, 2012

By /s/ Arthur J. Quirk  
Arthur J. Quirk  
Senior Vice President and Chief Accounting Officer  
(Principal Accounting Officer)

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Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

POST APARTMENT HOMES, L.P.

By: Post GP Holdings, Inc., its sole general partner

August 7, 2012

By /s/ David P. Stockert  
David P. Stockert  
President and Chief Executive Officer  
(Principal Executive Officer)

August 7, 2012

By /s/ Christopher J. Papa  
Christopher J. Papa  
Executive Vice President and Chief Financial Officer  
(Principal Financial Officer)

August 7, 2012

By /s/ Arthur J. Quirk  
Arthur J. Quirk  
Senior Vice President and Chief Accounting Officer  
(Principal Accounting Officer)

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