First Quarter 2017 Earnings Call

May 5, 2017 - 11:00 AM CT

Kim Callahan – Camden Property Trust

Good morning, and thank you for joining Camden's first quarter 2017 earnings conference call. Before we begin our prepared remarks, I would like to advise everyone that we will be making forward-looking statements based on our current expectations and beliefs. These statements are not guarantees of future performance and involve risks and uncertainties that could cause actual results to differ materially from expectations. Further information about these risks can be found in our filings with the SEC, and we encourage you to review them. Any forward-looking statements made on today's call represent management's current opinions, and the Company assumes no obligation to update or supplement these statements because of subsequent events. As a reminder, Camden's complete first quarter 2017 earnings release is available in the Investors section of our website at camdenliving.com, and it includes reconciliations to non-GAAP financial measures which will be discussed on this call.

Joining me today are Ric Campo, Camden's Chairman and Chief Executive Officer; Keith Oden, President; and Alex Jessett, Chief Financial Officer. We will be brief in our prepared remarks and try to complete the call within one hour. We ask that you limit your questions to two, then re-join the queue if you have additional items to discuss. If we are unable to speak with everyone in the queue today, we'd be happy to respond to additional questions by phone or email after the call concludes.

At this time, I'll turn the call over to Ric Campo.

Ric Campo – Camden Property Trust

Thanks Kim. Good morning. Our music for today's call was recommended by Dan Smith from KeyBanc who won our music trivia contest last quarter. Dan said he took a look at the calendar and immediately settled on a Cinco de Mayo theme. Gracias a Señor Smith por la musica!

I will keep my comments short since we are the last multifamily company to report, and I want to make sure we have enough time to answer all of your questions about Houston. Our team produced

first quarter operating metrics that were right on plan. I know our team is ready for our peak leasing season and will continue to improve the lives of our customers, their teammates and our shareholders one experience at a time. I'll turn the call over to Keith Oden.

Keith Oden – Camden Property Trust

Thanks Ric. Our first quarter results were in-line with our expectations, with same store revenue up 2.9% and up 0.3% sequentially. Most of our markets had revenue growth between 3% – 5%, just as we had forecast. Revenue growth for our top 5 markets was Denver at 7.4%, Atlanta at 5.1%, Dallas at 5.0%, Phoenix at 4.8%, and Austin at 4.5%. As expected, our two weakest markets were Houston with a 3.3% revenue decline and Charlotte with 1.3% revenue growth in the first quarter.

During 1Q17 our new leases were down 0.4% and renewals were up 4.9% for a blended rental rate increase of 1.9%. In April our new leases were up 0.3% and renewals were up 4.9% for a blended increase of 2.1%. Our May and June renewal offers were sent out with a 5.6% average increase.

Qualified traffic is strong in every market, and despite another year of above trend rental rate increases in 2016, our occupancy rate remains high. We averaged 94.8% in the first quarter of 2017 and in April it was 95.1% vs. 95.2% last year, again, in-line with expectations. The most important reason for maintaining our occupancy rate is the low level of net turnover. In 1Q net turnover was 40%, another record low for our overall portfolio.

The financial health of our resident base continues to be strong as our average rent as a percentage of household income was 18.3% for the quarter. This metric has been in the 17% – 18% range for the last few years. However, the financial health of our residents is still not translating to more home buying, as moveouts to purchase homes in 1Q were 14.9% vs. 15.3% for the full-year of 2016. We do expect to see this stat drift higher, but there is still a long way to go before we get back to the historical rate of 18%.

Finally, we recently learned that for the 10th consecutive year Camden was included in Fortune Magazine's list of the 100 Best Places to Work. This is a remarkable honor and a positive reflection on just how far the REIT industry has come since its reinvention almost 25 years ago. I'll turn the call over to Alex Jessett.

Alex Jessett – Camden Property Trust

Thanks Keith. On the development front, during the first quarter of 2017 we stabilized The Camden in Hollywood, CA and began leasing at Camden NoMa II in Washington, DC and Camden Shady Grove in Rockville, MD. Subsequent to quarter-end we stabilized Camden Gallery in Charlotte, NC and acquired an 8.2-acre land site in San Diego for future development. We have $660 million of developments currently under construction or in lease-up, with $200 million left to fund over the next two years. We still anticipate $100 to $300 million of on-balance sheet development starts later in 2017.

Our balance sheet remains one of the best in REIT world, and we are one of only six US Equity REITs with a senior unsecured credit rating of A3 or better from Moody's, with net-debt-to-EBITDA at 4.6 times, a fixed charge expense coverage ratio at 5.3 times, secured debt to gross real estate assets at 11%, 80% of our assets unencumbered, and 93% of our debt at fixed rates.

Our current ATM or At-the-Market equity program has $315 million in remaining availability, and was filed under a shelf which will expire this year. As a matter of corporate practice, we intend to keep an active ATM program on file. Therefore, we plan to roll the current availability under the existing ATM to a new ATM which we will file in the next few weeks in conjunction with the filing of a new shelf.

Turning to financial results, last night we reported funds from operations for the first quarter of 2017 of $100.4 million, or $1.09 per share, exceeding the midpoint of our guidance range by $0.01 per share. Our $0.01 per share outperformance for the first quarter was primarily due to:

- ¾ of a cent in lower same store operating expenses resulting primarily from lower employee benefit costs as we experienced lower than anticipated levels of health insurance and workers compensation claims. Although we are encouraged by this trend, if the past is any indication of the future these results might be timing related rather than permanent savings, and;
- ¾ of a cent in higher net operating income from our development and non-same store communities, resulting primarily from each of our development communities leasing ahead of schedule, better than expected results from our stabilized non-same store Camden NoMa I community, and better than anticipated net operating income from Camden Miramar, our student housing community in Corpus Christi, TX.

These positives were partially offset by both slightly higher net corporate overhead and higher than anticipated interest expense as the result of lower levels of capitalized interest. The lower level of capitalized interest resulted primarily from accelerated construction of our Camden NoMa II development which we began leasing during the first quarter of 2017 ahead of our original forecast for leasing to begin in the second quarter.

Last night we also provided earnings guidance for the second quarter of 2017. We expect FFO per share for the second quarter to be within the range of $1.11 to $1.15. The midpoint of $1.13 represents a $0.04 per share increase from our $1.09 in the first quarter of 2017. This increase is primarily the result of:

- An approximate 2.5%, or 3.5 cents per share, expected sequential increase in same store NOI, as we move into our peak leasing periods;
- An approximate ½ cent per share increase in NOI from our communities in lease-up;
- An approximate ¾ of a cent per share increase in FFO resulting from lower overhead costs due to the timing of certain corporate events;
- An approximate $0.01 per share increase in FFO due to lower interest expense, as the interest savings from repaying our maturing 5.83%, $247 million unsecured bond at maturity on May 15 is partially offset by borrowings on our line of credit, higher rates on our secured floating rate debt, and lower levels of capitalized interest. We currently have approximately $180 million of available cash-on-hand and will fund the remaining amounts necessary to repay the unsecured maturity utilizing our line of credit with an assumed interest rate of 1.9%;
- An approximate ½ cent decrease in income tax expense due to an anticipated second quarter Texas margin tax refund resulting from a prior year reduction in rates;
- And an approximate ¼ cent increase in FFO due to the non-recurrence of our first quarter loss on early retirement of debt resulting from the acceleration of unamortized loan costs on the $30 million tax exempt bond we retired last quarter.

This 6.5 cent per share aggregate improvement in FFO is partially offset by:

- An approximate 2.5 cent per share decrease in FFO resulting from lower occupancy at our non-same store student housing community in Corpus Christi, TX. Occupancy declines significantly from May through August at this community.

As a result of our actual and forecasted development and non-same store results we have increased the midpoint of our full-year FFO guidance by $0.01. Our new full-year 2017 FFO guidance is $4.49 to $4.65 per share with a midpoint of $4.57 as compared to our prior guidance of $4.46 to $4.66 per share with a midpoint of $4.56. As we have not yet begun our peak leasing season, we have left our 2017 same store guidance intact.

At this time, we will open the call up to questions.

Nick Joseph – Citigroup

How is Houston trending relative to your expectations so far this year? Do you still expect same store revenue growth for Houston to be down about 4%?

Keith Oden – Camden Property Trust

Yes we do. It is right on top of our expectations, and that would be true for all of our other markets as well. There's not a nickel's worth of difference between where we ended up the first quarter and what our original guidance was. We did give specific guidance on Houston that we thought 2017 would be the low water mark. We still think that's most likely true. We gave specific guidance of down 4% on revenues. And again, based on everything we see and have seen in the first four months of the year, we think that's still the right place to be for Houston for 2017.

Nick Joseph – Citigroup

In terms of same store revenue growth, I know you maintained guidance before the peak leasing season, but are you maintaining the components as well that you expect 50 basis points in lower occupancy this year and about a 65-basis point benefit from the bulk internet rollout?

Alex Jessett – Camden Property Trust

That's correct.

Nick Joseph – Citigroup

So if you think about trying to get to the midpoint of guidance, it sounds like you need to see rent growth throughout the year at about 2.7%. I think in the first quarter you came slightly below that. Just given the amount of supply being delivered this year, can you give us some comfort in terms of reaching that midpoint and maintaining the rent growth you saw in the first quarter?

Ric Campo – Camden Property Trust

If we thought we weren't going to hit the midpoint, we would have changed the guidance.

Keith Oden – Camden Property Trust

We're in pretty good shape. We do a full bottom-up reforecast market by market, so we're very detailed on how we approach this. We're fortunate to have a ton of people in these markets that have been doing this for our company for many years. We take great comfort from that. If you think about the big picture, the deceleration in Houston in our model is basically being offset by the improvement in Washington, DC. If you take the weighted average of percentage concentration for Washington, DC versus Houston, the math for those two markets is basically a push with where we were last year. Beyond that, we have many other markets where we're still continuing to see really good growth. Dallas, Denver, Tampa, and Atlanta are growing extremely well. We're still seeing pretty good strength across the platform. I guess I would go back to the original guidance that we gave on my letter grades, and I wouldn't change a single one of them. We had 10 markets that we rated as stable, one as improving, which was Washington, DC, and the remainder of them we rated as declining. I wouldn't change any of that. And with all that said, I think we still feel like we're in good shape to get to the midpoint of our guidance range for same store NOI.

Nick Joseph – Citigroup

Thanks.

Austin Wurschmidt – Keybanc Capital Markets

I want to touch on Washington, DC. It had a bit of an occupancy benefit this quarter. I'm wondering if we should view this quarter's revenue growth as a trend, or would you expect that to moderate a bit given that occupancy benefit? Also, any additional color you could provide on pricing power in that market heading into the peak leasing season would be helpful.

Keith Oden – Camden Property Trust

We had a really good quarter, again in-line with our plan. It's slightly better on NOI overall, but really in-line with what we expected to see. The strength in occupancy has carried over into April in Washington, DC. We see great traffic. Our folks are more optimistic in their commentary about what's going on in their markets than they have been in three years in Washington, DC. It's all positive. 3.8% revenue growth for the quarter is certainly a good start. I think you're likely to see that be part of a

trend that carries out throughout 2017. Again, we rated Washington, DC as our only market with an improving outlook, and it looks like we're in good shape to achieve that.

Austin Wurschmidt – Keybanc Capital Markets

Great. I wanted to touch on Houston quickly. You outlined 25,000 to 30,000 jobs and 10,000 to 12,000 new units in that market. And you've compared it to a couple of years in the past, 2003 perhaps and 2010 maybe, where same store revenue was down 4%. I'm curious as to what the jobs to completions ratio looked like over those two prior periods that saw similar revenue growth decline as what you're projecting in guidance.

Keith Oden – Camden Property Trust

They were probably a lot worse. We had significant job losses in Houston in those two prior periods. It was a much different scenario than what we're dealing with today. The economy in Houston during those two prior periods was fundamentally weaker than anything we've seen in this downturn. From the standpoint of jobs, this downturn was almost exclusively limited to the oil business. It didn't really ever spread over into other parts of the Houston economy. If you own apartments in Houston, it doesn't feel like a very good place to be, but absent that, the oil patch is in the process of a pretty robust recovery in terms of oil price and drilling activity across all of the major companies. Even though the apartment sector is weak, it's primarily a supply-induced weakness that once the market clears, and we expect that to happen sometime in early 2018, you get this glut of apartments where residents find a home and market rents have to go through their adjustment to have that happen. Houston is well poised for a recovery in economics which will immediately spill over into better support for rental rates. It's different. I would say each of those prior periods, in terms of supply, was similar but the jobs were worse. The economy felt like we were in a recession throughout those two prior periods. It just doesn't feel like we're anything close to that, and we're not in Houston in terms of an overall economic impact. Having said that, we have 2,200 apartments we have to work our way through in terms of deliveries over the next 15 to 18 months.

Ric Campo – Camden Property Trust

When you look at just the apartment side of the equation, we have great price elasticity. You lower the price and you can fill up apartments because people need a place to live. At the end of the day, Houston added 63,000 new residents in the last 12 months. 35,000 people came from abroad and 28,000 people came to Houston domestically. When you add that to the natural birth rate, it had a

population increase of 125,000 people in the last 12 months. You have this inertia of 6.8 million people living in this region. Completions are down 50% from 2016 to 2017, and they'll be down 50% again from 2017 to 2018. At the same time, in the last 12 months, job numbers are somewhere around 30,000 jobs. They actually produced more jobs in the first quarter than anyone thought would happen. But in the end, you still have to get through the supply issue. The good news is that it's very manageable when you start looking forward.

Austin Wurschmidt – Keybanc Capital Markets

Is it fair to say that the big difference is just the level of concessions from new supply?

Ric Campo – Camden Property Trust

Absolutely. If you're in a competitive market from a lease-up perspective in the energy corridor and in the urban core, it is three months free. The worst thing a merchant builder can do is be the last one to get to three months free, and that's pretty much a cap. They generally don't tend to go much more than that. When you think about three months free and what it does, it's taking a $2.80 per square foot rent down to about $2.00 or $2.10 per square foot, which increases the ability of the customer to pay. It's a boom for people who wanted to live in high-rises and really great urban locations. That consumer is doing really well right now. They've got lots of options and the prices are great. Those three months free doesn't translate to the occupied market though, because when you look at 4% down in our projection, we're not 0% occupied like a merchant builder who just opened their doors and are willing to cut prices at that level. Also, a lot of the product was very high-end, and that's where the biggest problem for rental is. Our suburban locations are doing much better than urban locations. That's an "A" versus "B" product or urban versus suburban kind of story, which is very typical in this kind of cycle.

Keith Oden – Camden Property Trust

Three months free is a 25% off rental decline for merchant builders, which is where most of the market is right now. But again, they have a very different task. They're trying to get from very little occupancy to something that's stabilized. In our portfolio, if we end up within our range, which we think we will at somewhere around 4% down revenue for the year, that's a mix of some at 8% and 9%, and some flat. We still had assets with positive revenue growth in the first quarter. They weren't big, but they were positive numbers. They're down 25% on asking price from a number that was probably too high. We're down 9% on asking rents on a market clearing number, and I think that's where it ends up. That's where it ended up the last two down cycles. We'll slug it out, and we think we can achieve our

guidance for Houston, and better days are ahead because Houston is a dynamic place, and it continues to attract people both domestically and internationally as well as the embedded growth of the population. We just have to clear 22,000 apartments.

Austin Wurschmidt – Keybanc Capital Markets

Thanks for the comments.

Jeff Pehl – Goldman Sachs

I was wondering if you can comment on new leases versus renewals growth for 1Q in Houston, and then how it's trending in 2Q.

Keith Oden – Camden Property Trust

For the first quarter in Houston, renewals were flat and new leases were down 7% plus or minus, and that carried over into April. If you're projecting over the balance of the year, how do you get to something less than 4% down on revenues? It's probably going to be close to that, trying to maintain flat on renewals. Overall leases may come down maybe 6% or 7%, and we end up the year down 3.5%. I think that's likely what we'll see for the next quarter. As we get to the back half of the year that may get better because we run into easier comps. Some of the concessions taking rents down have already occurred in the third and fourth quarters of last year, so the comps get a little easier. I think that's where we're headed.

Jeff Pehl – Goldman Sachs

Could you also comment on the negative revenue growth in Houston for the quarter? Can you break that down between your midtown assets versus the assets near the energy corridor and the suburbs?

Keith Oden – Camden Property Trust

Our midtown assets urban core would have been down 8% to 9% on new leases and roughly flat on renewals. As you go out into the other markets, new leases are trending flat to up 1%. So a big spread between suburban assets and urban core for sure, but we’re in a part of the cycle right now where our strategy to be diversified between urban and suburban assets is actually helping us quite a bit.

Jeff Pehl – Goldman Sachs

Thank you.

Juan Sanabria – Bank of America/Merrill Lynch

Can you talk about the split between your portfolio as a whole and the same store rent trends you're seeing between those two, and how supply looks looking forward between those two different segments of your portfolio?

Keith Oden – Camden Property Trust

I'll start with supply because it's pretty straightforward. We have three to four times as much supply in the urban core as we do in the suburban markets across our platform. By and large it's an urban core problem in terms of supply. A market like Houston is so large and spread out that unless someone happens to be building right next door to you, you're just not going to have the kind of impact that you would when you have large aggregations of units being leased. In terms of the spread between suburban versus urban assets, suburban assets are outperforming the urban assets by about 1.5% in same store revenue, and that's across Camden's entire universe. It's not just Houston. Again, those are the supply challenges. Where we have new construction going on in other markets, it has been predominantly in the urban core. It shows up in the spread, and it's been that way for the last two years in terms of that outperformance, 1.5% suburban versus urban. If you go back five years, there were three straight years where the urban was outperforming the suburban. It's just where we are in the cycle.

Juan Sanabria – Bank of America/Merrill Lynch

What's the overall split between urban and suburban for the whole portfolio?

Keith Oden – Camden Property Trust

It's about 2/3 suburban to 1/3 urban, but we'll get you the exact number.

Juan Sanabria – Bank of America/Merrill Lynch

How are you thinking about supply in your portfolio for 2018 vs. 2017? Are you seeing any slippage on delivery time frames this year that could leak into 2018?

Keith Oden – Camden Property Trust

The slippage on delivery times is in every market, in every submarket. There's not a single merchant builder or other folks in the REIT world who have not experienced some degree, and in some cases,

pretty material delays. We just don't have enough construction workers to get these jobs done concurrently. That is going to continue being a challenge.

One of our data providers, Ron Witten, tries to incorporate a longer construction and lease-up period in his forecast for multifamily completions. Time will tell how well that's being captured. If you look across all of Camden's markets, Ron Witten is forecasting about 146,000 completions for 2017, and that drops to 128,000 for 2018, so a 10% to 12% decline in total completions. Job growth in 2017 is 569,000 jobs across Camden markets, and that ticks up to 579,000 jobs in 2018. That number is roughly in equilibrium on the 2018 completions versus jobs. We still have too many completions for jobs in 2017, but a really strong job number came out this morning, so maybe that's the beginning of a trend. We know for a fact that Camden's markets attract a higher rate than the national average when we get job growth.

Juan Sanabria – Bank of America/Merrill Lynch

Thank you.

Alex Goldfarb – Sandler O'Neill

At a recent conference, I was talking to a few private developers and they were saying that some of the big merchant builders are talking about a 35% to 50% reduction in starts. But Keith, it didn't sound like 2018 was too different than 2017 in terms of supply. Can you give an update on what you are hearing from the merchant developers, and how we should think about supply in the next few years, which we all expect to decline but hasn't?

Ric Campo – Camden Property Trust

The anecdotal information we get from the largest merchant builders is the same, which is that they're lowering the number of starts. And they're lowering it for a couple of reasons, one of which is the challenge in getting bank financing. There's not only the stress in getting construction loans, but also you get less of a construction loan and have more expensive costs, so their total cost of capital has gone up, requiring more equity or some mezzanine lending to bridge that gap. The other part of the issue is not being able to sell those projects because of the delays in finishing them. They're capped because they need to sell projects to do new projects. Even though we haven't seen these numbers come down, it feels like they're coming down based on discussions we've been having with merchant builders.

Keith Oden – Camden Property Trust

Completions are one thing, but when you're having conversations with merchant builders about their future book of business, they're more likely thinking in terms of what they're going to be permitting. Axiometrics is forecasting 135,000 permits for 2017 and 104,000 for 2018. That's 25% to almost 30% down in permits across Camden's entire platform, and that starts to get in the range of what you're hearing from the merchant builders that we talk to.

Alex Goldfarb – Sandler O'Neill

Ok, that's helpful. Switching to the West Coast, you announced a San Diego land purchase. It's been a while since you've done much in San Diego. Can you give an update on that market? And then two, was that purchase because of where the yields are relative to where they may be, say, in Los Angeles, or is there something that you're seeing in San Diego that makes you want to put some money to work there?

Ric Campo – Camden Property Trust

We are in both markets, and our development team has been scouring the markets trying to figure out deals that work and it's been a very difficult process. The projects that most merchant builders are doing out there start with a low 5% yield, and that's a challenge for us. The San Diego deal was a unique opportunity to do an off-market transaction with a seller of a property that had a somewhat complicated structure. We were very happy to be able to do that. Both the Los Angeles and San Diego markets are doing really well for us. We've done great in our Camden Glendale project, leasing it up and creating a lot of value. We like the San Diego market and we really like the site because it was off-market. We didn't have to compete with other developers for it, which was good.

Alex Goldfarb – Sandler O'Neill

How does this yield look versus that low 5% yield?

Ric Campo – Camden Property Trust

We think it's a either a high 5% or a low 6%.

Alex Goldfarb – Sandler O'Neill

Thank you.

Rob Stevenson – Janney Capital Markets

Can you talk about South Florida and what you're seeing in that market? How different is your performance between the various submarkets down there right now?

Keith Oden – Camden Property Trust

Overall, South Florida is where we thought it would be. We still have challenges with a lot of high-rise product being built. Fortunately for us, the projects that are being built have pro forma rents at around $3.00 plus per square foot. We have a couple of high-rises that we're in the midst of repositioning that we think ultimately will be very competitive with the new product. But the bulk of our assets in South Florida are garden, low-rise and mid-rise product. It's at a totally different price point than where most of the new supply is. So that's helped us to a certain extent. In my original guesstimates for the year, we rated both Miami and Fort Lauderdale a B with stable outlooks. I still think that sounds right to me based on our first four months of operations. I think we're reasonably well-positioned to hit our plan this year in both of those markets.

Rob Stevenson – Janney Capital Markets

How about Atlanta? Does it continue to be a strength for the multifamily companies that have been there? What are you seeing, and is there any material differentiation between the various submarkets?

Keith Oden – Camden Property Trust

Our portfolio is very spread out in Atlanta not unlike our Houston portfolio, just smaller. Atlanta was our fourth highest rated market for 2017. We rated it as B+ and stable, and I still think that's right. We're still over 95% occupied and had a great first quarter. We had a little over 5% revenue growth in the quarter, and that's on track with our plan. You do have some supply that's going to be an issue in Atlanta later this year in the Buckhead area. There's a lot being brought to market right now, and we're probably going to have to deal with some of the supply challenges in the Buckhead submarket. But again, we have a very good mix of Buckhead and other suburban markets that ought to serve us very well in Atlanta.

Rob Stevenson – Janney Capital Markets

Thank you. I appreciate it.

Drew Babin – Robert W. Baird

In the past you talked about the bottom 5% to 10% in your portfolio being candidates for pruning in a given year. Does the amount of cash you have on the balance sheet change your thinking with regard to whether you sell those assets or put some update capital into them?

Ric Campo – Camden Property Trust

We have the best balance sheet in multifamily right now, and we're happy about that given where we are in the cycle. We're going to continue to manage our portfolio over time. You're not going to see $1.2 billion of sales like we did last year, because we hit the market at the perfect time to sell those older assets but we will continue to play this trade. Since 2011, we sold $2.1 billion of assets at roughly over a 5% AFFO yield. When you think about that relative to what we've acquired and developed, the negative spread between our acquisitions and our dispositions, given that we sold 20-plus-year-old assets with high capex, was 27 basis points on those trades. And I will tell you that in my business career I have not seen a spread as tight as it is today. If we can continue to do that, we will. When you think about acquisitions, we sold $2.1 billion of dispositions and had only $643 million of acquisitions, with none in the last three years. We mostly put our money in development because you can get a much better spread on the development side of the equation. So you don't have a negative spread there, you actually have a positive spread of probably 160-170 basis points on that trade.

We will continue to prune the portfolio. We've gotten most of our low-hanging fruit finished. When you think about the supply side and the amount of merchant builder product that has been developed over the last two or three years and the rise in construction costs that you've seen, what's happening now is that development spreads or the profit for the developer has narrowed dramatically. We're going to be able to acquire properties potentially going forward at below replacement cost. In order to reload their portfolios, merchant builders are going to have to sell some assets to do that. We're already starting to see a little bit of that come to market. The idea of selling older properties and buying newer properties at a very small negative spread, on old versus new is something we're going to continue to do.

Drew Babin – Robert W. Baird

That's helpful. And maybe the next tier up on your portfolio assets that aren't necessarily sale candidates that you do want in the portfolio, might we see a directional pickup in ROI capex-type projects?

Keith Oden – Camden Property Trust

We have been repositioning assets pretty aggressively for the last four years. We have another pool of assets that we're starting to reposition this year. It's not anything near the levels that it was two or three years ago, but we will continue to look for opportunities to put capital back into assets where it makes sense for us to view them as long-term holds. As Ric mentioned, all the assets we wanted to sell, we sold last year. We exited Las Vegas which was about $600 million, and then we sold another $600 million of assets across our entire platform. They represented the assets that we did not see sufficient upside to reposition. And because of their age and capex requirements, they needed to be in someone else's portfolio. We got really aggressive on the assets we wanted to sell, and sold them last year.

Drew Babin – Robert W. Baird

That's very helpful. Thank you.

James Sullivan – BTIG

I have one question regarding Houston and your outlook for 2018. In the 4Q call, you characterized your expectations in Houston for 2018 to be equilibrium, although there was, perhaps, some optimism that it could be stronger than that. In your comments here with three months on, I think your comment about job growth in Houston was that it created more jobs than expected. As we look at what's happening, everybody expected permits to collapse there but they've been very, very low here in the first quarter. Are you incrementally more positive about where Houston would be in 2018? Are you a little more optimistic about achieving equilibrium or equilibrium plus?

Ric Campo – Camden Property Trust

The numbers that have come in the first quarter were definitely better than we expected. Starts are definitely falling off the edge of the earth. I was very surprised by the in-migration numbers, because generally speaking, people don't move to a market unless they think they can get a job. And it's very widely known across America that Houston has its issues with the energy business, yet we still had this great in-migration. Yes, we are more positive about Houston because of the first quarter job numbers and in-migration numbers. But on the other hand, a quarter doesn't make the year and it doesn't absorb 22,000 units. We're guardedly optimistic, probably a little more optimistic than we were going into the fourth quarter call, but we still have to see how it all plays out. Oil prices are down the last couple of days, even though most oil companies are adding some jobs back. I think it could surprise people on the upside in 2018. We're going to wait and see.

Keith Oden – Camden Property Trust

I agree with that. As I mentioned earlier, it doesn't feel like there has been a big dislocation in the economy in Houston. It's really been contained to the oil and gas sector, and has bled over into people who own apartments and own office buildings. The rest of the working people are going about their daily routines in Houston, restaurants are full and there's traffic everywhere. It feels like crazy times in Houston, not boom times but still very robust and healthy from an overall economic standpoint. Ric's point about the in-migration is potentially a game changer. You've got 60,000 people or so who showed up. Somehow or another, they're working their way into the economy, whether it's showing up in the stats or not, and they need a place to live. A high percentage of them will end up renting something before they make a permanent decision to own anything in Houston. I think that's probably the upside if we see that continue throughout 2017 and into 2018. You probably have enough people sloshing around that are going to find their way into employment and need an apartment, and ultimately, we get through the 20,000 plus or minus units by the end of this year or early 2018. I think there's probably some upside from there.

James Sullivan – BTIG

Thank you.

Tom Lesnick – Capital One Markets

I'll limit my Houston question to just one. As you think about the cadence of year-over-year comps for same store trending through the year, I know you talked about 2017 being the bottom and potentially 2018 getting better, but as you look at it from a quarterly timing perspective, when should we expect the inflection point to occur per se? I say that in the context that you actually had a positive same store NOI comp in 4Q16. Does that set up an exceedingly hard comp optically for you this year?

Keith Oden – Camden Property Trust

I'm not picking inflection points in 2017 for Houston, but we were down 3.3% for the quarter. I think we still feel pretty good about containing it at the 4% level. We'll just have to wait and see. There's a lot of volatility around what merchant builders are doing, where our direct comp set happens to be. When the merchant builders get close to 90% occupancy, three months free becomes one month free overnight. It's a different world. As they get closer to stabilization, their behavior changes dramatically. That's good for the embedded base of our portfolio. I still think down 4% in 2017 looks like the bottom to me.

Ric Campo – Camden Property Trust

One of the things I think is interesting is that people use the jobs to completion ratio as a guide. But if you use the jobs to completions ratio as a guide in 2015 and 2016, Houston had 15,000 jobs and absorbed 30,000 units. The ratio didn't make any sense. What was happening during that period is that by 2014 Houston had over 100,000 jobs for the past three years straight in 2012, 2013 and 2014. You had momentum in this large market that took up a lot of absorption in the marketplace. So the question on inflection is will that continue to happen with this in-migration and better than expected job growth? It will happen, we just don't know when.

Tom Lesnick – Capital One Markets

Got it. You had some expense pressure both sequentially and year-over-year in your comps, and it did appear limited to one market. There were several markets that were kind of trending at above long-term levels. Could you talk more about property tax, utilities, property insurance, and how you see that trending cadence-wise through the year?

Alex Jessett – Camden Property Trust

On the property tax side, we think the full year is going to end up 5.5%. That's what we thought a quarter ago. We still think that to be true today. On a sequential basis, it was a very tough comp because we got quite a bit of property tax refunds in the fourth quarter of 2016, particularly in Houston. When you look at the insurance side, and we talked about this on the last call, in the first quarter of 2016, we got refunds of approximately $1.5 million. And by the way, those insurance refunds were allocated across our entire portfolio. That certainly negatively impacts the comparison on a quarter-over-quarter basis. For the most part, increases in utilities are being driven by the rollout of our tech package. Regarding our tech package, we've rolled out about 37,000 of our 42,000 same store units. So you should start seeing the impact on the expense side declining as we go throughout the year.

Tom Lesnick – Capital One Markets

Got it, that's very helpful. My last question is on Corpus Christi, and I know this is a very small portion of the portfolio. Can you remind us what's going on there? I think you have a lone student housing asset. What was the genesis of that investment, and how do you see that asset long-term in your portfolio?

Keith Oden – Camden Property Trust

Are you asking specifically about the student housing asset? First of all, it doesn't show up in our same store pool. We have three wholly-owned assets, two of which are same store and then Camden Miramar, the student housing product. The student housing product is doing great, better than planned so far this year. That's not any part of what is showing up in these numbers. The decline in Corpus Christi is primarily because of the hits in the oil patch that affected the South Texas markets. Camden Breakers in particular is undergoing a major exterior renovation, and it's just messy. It's hard to drive the right kind of traffic and close at the percentages we need. So a small piece, but gets the attention it deserves. Some of it is a market condition, but some of it right now is particular to that one asset. When you only have two assets in the same store pool, it's going to be pretty volatile quarter to quarter.

Tom Lesnick – Capital One Markets

Thank you for the clarification.

Wes Golladay – RBC Capital Markets

Can you give us your view on development costs inflation over the next few years? We're already hearing about lumber tariffs potentially happening. And if an infrastructure bill is implemented, what will that do for labor costs?

Ric Campo – Camden Property Trust

We're very concerned about lumber and labor costs. When you think about any kind of infrastructure bill from the government, and you look at an unemployment rate of 4.4%, it's a tough deal. Construction costs haven't come down in Houston even though construction is falling for multifamily, because it's being offset by public sector, hospital, and petrochemical spending. I think there's going to be continued pressure on labor and on product shortages, especially if the government implements an infrastructure bill this year.

Wes Golladay – RBC Capital Markets

Ok. I want to go back to that comment about Houston merchant builders getting to 90% lease-up and then backing off the concessions. Is there any particular development company or any particular project that is really compressing the market as a price setter, and once they get leased up, we might see some relief?

Ric Campo – Camden Property Trust

I don't think so. I think it's across the board. Like my tongue-in-cheek comment earlier that the worst thing for a merchant builder is to be the last guy to get to three months free. They all immediately go there fast, and then the same thing happens once the market stabilizes. There's not one particular owner; it's a very dispersed group of merchant builders. You might have the Trammel Crows of the world that have a lot of projects but they don't control the market, and there's not one group that really does that. It's a pretty broad competitive set.

Keith Oden – Camden Property Trust

It's really submarket specific. If you have two new lease-ups that are within a one-mile radius of the property you're trying to lease up, then you're going to be competitive until they get stabilized. They'll run really hard for the exit, and will smash through the door at the same time. The good news is that they run really hard for the exit.

Ric Campo – Camden Property Trust

The other good news is that price elasticity is great. The consumer in Houston is having a field day in lease-ups. A lot of the product that was built, high-rises that never existed in a lot of submarkets, is as good as or better than any for sale condo or product. It's not that they open and all of a sudden there are crickets. No one is walking in the door. There are a lot of people walking in the door getting great deals. One of the only concerns I have is if you move in at a 25% discount, how fast can they move that up for those customers, and do those customers have to be moved out and new ones moved in to be able to get to those high levels? On the one hand, as an investor in Houston and as someone who understands the market, I kind of like that potential problem for those people, because we could easily upgrade our portfolio buying some of these assets below replacement cost. Because costs have gone up, and will continue to go up, the developer can actually sell their asset and get their money out with a slight profit. We may be able to acquire properties at below replacement cost, and below what we could build on our existing sites. That's an opportunity I think is really good.

Wes Golladay – RBC Capital Markets

Thank you.

Rich Anderson – Mizuho Securities

You kind of stole my question about what happens in phase two of these three months, the concession situations and that same customer stays for the 25% rent increase. Maybe you can speak in terms of history. Is there going to be an uptick in turnover in the short-term in Houston next year if all things kind of go as planned, or how much does that delay the ultimate recovery in your estimation?

Ric Campo – Camden Property Trust

I think it's all a function of what the economy is doing and whether the job growth is there and in-migration stays. When you look at in-migration for example, 35,000 of the 63,000 people that moved to Houston in the last 12 months are from abroad. We find that the foreigners are much more used to a) renting and b) moving into a lot of these high-rises. In a market that is as big as Houston, 20,000 units is not a huge amount of inventory. It really remains to be seen what happens with that. If you had a recession that happened at the same time over the next couple of years, that wouldn't be good for a recovery in Houston. But if you just have a go along get along like we're doing now, it probably does fine. I do think that the psyche of that merchant builder today and the investors that have invested in these new projects has definitely changed. Their view is that they're hoping, and with reasonable hope, to get their capital out with a small profit. We've had people approach us, for example, to buy lease-ups. I'm not prepared to buy a lease-up here today. But the idea that merchant builders are being more realistic in terms of what their pricing might be in the future is going to be a good thing.

Rich Anderson – Mizuho Securities

Ok. If you look back at what you've done in Washington, DC and you've had some success with NoMa II, do you look back and say, I wish we had been a bit more aggressive developing sooner to deliver into a better market? And if that's the case, how does that affect your strategy for development in Houston? Or is it because it's a supply-driven weight right now that maybe you'd be less inclined to add development projects early to deliver in a better market in Houston later?

Ric Campo – Camden Property Trust

That's definitely a calculus that we are looking at. If you hold land, it gets more expensive every day. If you think construction costs are going up and not coming down, and you think that you might be able to deliver into a strong market in the future that doesn't have a lot of competition, that's an analysis that we have to make. It's one we're looking at for sure. The question ultimately is can you get

the math to work, and then what's your view of the market? We've done well in Washington, DC. A lot of people pulled back from there or some of our competitors did, and we're glad we didn't.

Rich Anderson – Mizuho Securities

Thank you.

Rich Hightower – Evercore ISI

In the context of a very low levered balance sheet with shares trading certainly below our estimate of NAV to a significant extent, I'm curious as to where share repurchases fit into the corporate finance matrix at this point for you.

Ric Campo – Camden Property Trust

Share repurchases have always been in our forte. We have purchased shares during multiple cycles. The real issue becomes volatility, and scale. I don't think our team believes that nibbling at shares below our NAV makes a lot of sense if we can get size and sell assets for $1 on Main Street and buy the stock back at a discount on Wall Street. It's a rational trade to do, but it doesn't really do you any good unless you're going to do it in size. The challenge we've had over the years is that the stock has been very volatile. We get to the point where we think it's really good value and all of a sudden so does the market and they drive the stock price up and then we can't buy it. It's an interesting academic question, and makes perfect sense to do it. The question is how do you execute it, and can you execute it where it really makes a difference?

Rich Hightower – Evercore ISI

Thank you.

John Pawlowski – Green Street Advisors

Can you share the average stabilized yield on the eight projects you have either in lease-up or under development right now?

Ric Campo – Camden Property Trust

Our stabilized yields on average are around 7%.

John Pawlowski – Green Street Advisors

And that's on today's rents?

Ric Campo – Camden Property Trust

Yes.

John Pawlowski – Green Street Advisors

Keith, you mentioned you reset your underwriting after each quarter passes. Can you share the occupancy, new lease and renewal growth expectations for the last three quarters of the year that get you to the 2.8% midpoint of revenue growth guidance?

Keith Oden - Camden Property Trust

No, because we go through a bottom-up reforecast of every community. We take those numbers and say, what is the progression? We can give you the progression on new leases and renewals that we've already done, which we have provided for you today. As far as quarter-by-quarter progressions, that's not something that we've ever done or are prepared to do. We're comfortable that we're going to get to the midpoint of our guidance on same store.

John Pawlowski – Green Street Advisors

Ok. With the comments on deliveries slipping to the back half of the year, is there any concern you're on track through the first five months of the year because deliveries have been light and they'll be back weighted?

Keith Oden - Camden Property Trust

No, I don't think so. I mentioned earlier that Ron Witten has put some pretty good effort around trying to account for the delay in these projects. We have very good data on where they are from a construction completion standpoint and also lease-ups. It's important that, for all the reasons that Ric mentioned earlier, we know exactly what's going on with the entire inventory out there that at some point, needs to find a new home because 99.9% of it is merchant builder product. Ultimately they're not prepared nor are they positioned to own these assets long term. We track them very closely, and I'm confident that the numbers that we're using for supply are good numbers.

John Pawlowski – Green Street Advisors

Thanks.

Ric Campo – Camden Property Trust

I appreciate your time today and we will see you at NAREIT. Thank you. Take care.