Nick: Thank you for joining the 2:15 p.m. session at Citi's 2018 Global Property CEO Conference. This session is for investing clients only and if media or other individuals are on the line, please disconnect now.

Disclosures are available up here and on the webcast on the Disclosures tab. For those in the room or the webcast, you can sign on to veracast.com/ask and enter code citi18 to submit any questions if you do not want to raise your hand.

I'm pleased to have with us Camden Chairman and CEO Ric Campo. Ric, I'll turn it over to you to introduce the team and the company, and then provide the audience three reasons why investors should buy your stock today, and then we'll get into Q&A.

Ric: Great. Well, thank you. I'm glad to be here today. I have Kim Callahan, our Senior Vice President of Investor Relations, here with me to answer all the technical questions.

So I'll just get into the three reasons you should buy Camden stock. Camden has been around for a long time. We're actually celebrating our 25th year as a public company in July at the New York Stock Exchange and it should be a lot of fun.

So three reasons. First: the stock is on sale. With interest rates going up and the market throwing REIT stocks out the window, we have an implied cap rate of 6% in a market where underlying cap rates on the private side are anywhere from 4% to 4.5% plus or minus for the portfolio. Second: we have one of the best balance sheets in the sector. We sold a lot of properties over the last few years, recycling capital, and delevering the company pretty dramatically, so we have a lot of dry powder. Third: we're the only apartment company that has accelerating same store revenue this year, primarily because of the rebound of Houston after Hurricane Harvey and the improvement of the market there, just from a job growth perspective and overall. So those are the three reasons.

Nick: Great. And so we're starting every session off with the same question: What is the single most important thing investors get wrong about Camden?

Ric: I think the single thing is that most people focus on the supply side of our markets and that the markets that we operate in, 14 markets around the country, are supply-prone, if you will. I think the way they should look at is that they're demand-prone, and they're demand-driven. The reason that supply gets done in the markets we operate in is that there's demand, and I think people get that demand/supply thing out of whack.

I think a great example of that would be, if you take Houston as an example, the market clearly overshot in terms of supply. You had the largest oil collapse since the great depression of the oil business, yet Houston stayed pretty resilient during that period. If you look at completions, in 2017 there were 20,000 completions in Houston, and in 2018 there are 7,000. In 2019 there are probably 6,000 or less. So the market can shut down pretty fast as well on the supply side, once demand has an issue. I think what's going to happen there is a good example of a rebound in a market that can happen pretty quickly.

Nick: The first thing you said for reasons people should buy the stock is that it's on sale. Do you think NAV is still a relevant metric to value Camden?

Ric: I do.

Nick: And so how are you going to close that gap?

Ric: The gap gets closed either by the market understanding when NAV is relative to the stock price. If you look over the last 25 years and you measure when there's been a big disconnect between NAV and the stock price, it doesn't last very long because the market just won't let it happen. Value investors will come in and start buying the stock. That's the normal way it happens. We'll just drive earnings and drive cash flow growth, and ultimately the value proposition will fix itself.

I remember during the build-up to the tech wreck in 2000-2001, the same thing happened. No one wanted real companies with cash flow. They wanted click-throughs or eyeball ratios or something like that. There was a period where we had a big disconnect for a long period of time, and we sold assets on Main Street and bought the stock back from Wall Street at significant discounts. We had only been a public company for six or seven years at that point. The ultimate question is if the market doesn't fix it, then why would you operate a company that had a significant discount to the value of its underlying assets? You would just sell the assets or sell the company.

Nick: You've bought back a lot of stock in the past. Why not execute today on that, especially given where the balance sheet is?

Ric: We have bought stock in the past and we will buy stock in the future. We've talked about our metrics. On average we bought about 20% of the company back at a 20% discount over the years. For us it needs to be a significant discount, which we're clearly getting close to at this point. And then it needs to be persistent so that we can execute a strategy over a period of time. I think the challenge that we've had over the past is that the disconnects we've had on NAV and stock price have been relatively short-term and we haven't been able to execute. Part of the challenge is that you're subject to blackout periods and subject to trading restrictions that limit your ability to buy a lot of stock very quickly.

Nick: It's easy, obviously, with hindsight to see that a discount is persistent, but in the moment, how do you know the discount is going to be persistent? Why not buy back shares today?

Ric: Sure. So the key is setting a price target and then being disciplined around that price target, just like I think most of you in this room are probably disciplined. And then it's executing it. So this has been a fairly short period of time where this disconnect has happened. At the beginning of the year we were close to NAV, and now we're not. So we approach it like any other investment decision or capital allocation, in the same way as I think people in this room do.

Nick: Maybe just turning to operations. Any update that you have so far year-to-date on how things are trending relative to expectations?

Ric: Sure. Things are trending right in line with our expectations. Our new lease rates have improved slightly from the earnings call. Our renewals have improved a little bit as well, so we're tracking pretty much where we thought we'd be.

Nick: Any markets that have diverged from expectations, either to the positive or negative?

Ric: No, they're all moving along. With two months into the year, I'd be surprised if I had any major outliers at this point.

Nick: So we had the AvalonBay panel earlier and they talked about being 25 basis points ahead of where they thought, basically occupancy-driven. So I didn't know if you'd seen similar either trends on occupancy or any kind of market differential.

Ric: We're right in line with where we thought we'd be.

Nick: Perfect. Maybe with Houston specifically, what are you seeing in that market today and how are you treating some of the short-term leases that are coming up that were signed post-hurricane?

Ric: Well, on the early leases that we did right after Hurricane Harvey, we froze pricing. We took our revenue management system offline because it would have really spiked pricing with the demand that came in the door. We kept that fixed pricing through the end of November, then we started feathering in the pricing model.

What's been happening in Houston is that maybe a little bit more than two-thirds of those leases are gone already. Most of the people were able to fix their houses or come up with another scenario where they didn't need to live in apartments. So the good news is that two-thirds plus are already out, and our occupancy level has come down to where we want it to be. I think what will happen through the spring is that our pricing model will start pressing new lease rates and renewal rates to get the occupancy where we want it to be. So, most of the Harvey effect is out of our portfolio. Maybe a slight amount of it is still there, but not much.

I think that what Harvey did was interesting because we started seeing a steady increase in new lease rates. Maybe the right way to say it would be we saw less decreases, going from down 10% to down 7% to down 5% throughout 2017. When Harvey hit, we basically had flat lease declines and then positive renewals. That's consistent with what's happened through the beginning part of this year. Once we start our spring season, we'll start pressing those new lease rates.

Nick: Have you seen any change in terms of concessions that are offered by new builds in Houston?

Ric: Concessions are still in the market with new builds in Houston. It just depends where you are. In the Energy Corridor, which would be the west part of Houston along I-10 and south of I-10 towards the west, there are pretty much no concessions in those markets. You had buildings that were pretty much vacant before Harvey. They were giving three months free and now they're full. Part of the reason is that a lot of the flooding happened along the energy corridor. There were some properties that were actually taken out of service there that had to get filled. Then those residents moved to other places. The other part of the Energy Corridor that's interesting is that energy jobs have started coming back, or at least the losses have stopped, and there's just normal demand going on.

In terms of other markets, downtown is a tough market in Houston. There are three months free in the downtown market. But it's leasing up and we expect the downtown market to be pretty much full by early 2019. There are definitely some concessions still embedded in the Houston market, but it just depends on where you are.

Nick: I think on the call you talked about Southern California being your top market or one of the two top markets for the portfolio in 2018. Would you see risk to repeal Costa-Hawkins?

Ric: I think it's a pretty high risk. It's hard to say exactly what's going to happen with that. I think that to me Costa-Hawkins is the first level of risk. For those of you who don't know what that is, it's basically a state-wide legislation that limits local municipalities from implementing rent control. And so if Costa-Hawkins does get passed, then I think what happens is that it's harder to do a state-wide initiative for multifamily owners. It's much easier to fight the battle on the ground one city at a time, because each city is different in terms of what its politics are. But I think there's a pretty good possibility that Costa-Hawkins gets passed, and then it becomes a city-by-city issue.

Nick: So I guess you deal with some level of rent control in D.C., and then obviously in California. Are there any other markets that either you face rent control today or that have initiatives to impose rent control?

Ric: Not in our markets, no.

Nick: We have a handful of questions actually coming in from the audience that are operations-driven, so let's hit those. Maybe staying with Houston, what is occupancy today in Houston, and what is the target occupancy? And then where do you expect new and renewal lease rates to trend during the peak leasing season for Houston?

Ric: So current occupancy is 95.5%, it peaked at 98.5%, and we've bled off about 300 basis points in occupancy through pushing our revenue model. Before Harvey we were flat on renewals and we were negative on new leases. Post-Harvey we were flat on new leases and up 5% on renewals. I think we're up 5.3% on renewals now and new leases are up 0.2% or something like that. In terms of longer-term, I don't have specific numbers on what we expect new leases to be, but our revenue for Houston is projected to be up 3% from 2017 on a same store basis.

Nick: And maybe sticking with that – I'm going to go off of these stats. Year-to-date occupancy is up 70 BPs year-over-year, but guidance assumes occupancy to come down for the year. How should we reconcile those two numbers? And also, does having higher occupancy help you push rent in the peak leasing season?

Ric: So occupancy is one part of the revenue equation, and we manage our occupancy based on how we're feeling about the market. Generally speaking, lower occupancy, as long as it's within a band of tolerance, is actually better than higher occupancy. Our revenue model does not like high occupancy, and it does not like low occupancy. So what we do is drive our occupancy levels to a sustainable level by driving rents on new leases up. The higher you drive new leases up, oftentimes the less capture you'll have on new leases coming in the door. So depending on where your occupancy is by market, we will toggle that occupancy number to drive revenue to the best fit we can in that marketplace. So I never look at occupancy as a proxy for how we're doing, unless it's really low or really high.

In Houston's case, we were 93.5% occupied before Harvey and then five days after the event we were 98% occupied. The revenue model would have spiked rents if we let it roll. You don't want 98% occupancy. That's too high. You want to drive it down to a 95% sustainable level so that you can get the best fit between capturing rent. New renters coming in at higher prices, versus pushing people out from a renewal perspective and having to replace that resident and go through the costs associated with that.

Nick: Then the final question we have, renewals are at the highest level since 3Q16. Is there anything specific driving that?

Ric: I don't think there's anything specific driving that. It's been interesting. You've had lower turnover consistently over the last few years and that has been a normalization of people not moving around as much. In the last year, we've taken a position where we will not push people out for small dollar increases. Said another way, we'll cap a renewal. Even though our revenue model says you should renew at 10% or 12% higher than the current rent, which in the scheme of things is a great renewal rent, we will bring that down and say, wait a minute, let's cap it at 7% or cap it at 5%. The reason is that the incremental revenue you get on pricing gets offset by the cost associated with vacancy and re-leasing the unit. So we have taken a different approach towards pressing for renewals and not pushing people out as quickly as we have in the past. I think that the reason is that most markets are decelerating not accelerating, so your revenue stream is actually moderating. You'd rather keep people longer on the renewal side than press to get new residents at a moderating rent.

Nick: Is there a cap across Camden everywhere or is it a market-by-market cap?

Ric: It's totally driven by market conditions within each market.

Nick: Do we have any questions from the audience? Maybe just in terms of marketing, it feels like the demographics have mostly dealt with Millennials, but also baby boomers are coming back. Do you need to operate or market differently to attract those different segments?

Ric: You definitely do. I think Millennials are definitely focused on social media. We do a lot of social media through Facebook, Twitter, etc. The empty-nesters are a little different. Most of it is social though, and technology. We don't do any print ads or anything like that. We still do outreach marketing with employers in the area, but generally speaking, everything's via the Internet. But we definitely target Millennials in a different way than we target the empty-nesters.

Nick: Do you have to operate differently at all?

Ric: We don't operate any differently at all, no. Let's say we have a high-rise in the Galleria in Houston, for example. We're going to get mostly empty-nesters because of the price, and the Millennials can't afford those. You're not going to advertise or use Google metrics in certain areas to get those folks, but you don't operate any differently.

Nick: Then for operating expenses, real estate taxes have been a headwind for the last few years. Do you think those start to come down going forward or do you think the municipalities keep pressing on?

Ric: The values obviously have gone up, and the issue with municipalities is that they tend to be lagging on value increases. If you look over the long period of time, property taxes have gone up an average of 2.5% in our portfolio. Over the last few years they've gone up much more than that, at 4% to 5%. We think that over the next year or two they will go back to normal because I think the municipalities have been catching up with the market over the last few years. Hopefully they will be caught up in the next year or two.

Nick: Then a similar question on insurance costs. Obviously, after the storm, should that be a headwind going forward?

Ric: It will be. Insurance costs, not just for property and casualty, but also health insurance. We probably have bigger issues with health insurance than we do with property insurance. Property insurance as a percentage of our portfolio is small relatively speaking. We have a mid-year renewal, and we think it's going to be up 8% to10% this year, but it's for only half of the year, so it doesn't really negatively impact us that much. When you look at our 4% same store operating costs growth this year, that's property taxes and some small property insurance growth, but one of the bigger issues is health insurance and employee costs. That is going to be a longer-term problem that all of us have to face. I think this year is something like a 9% to 12% increase in health insurance and employee costs. That's a big number, and unfortunately I think it's going to continue.

Nick: You're one of the few apartment REITs actually being net acquirers this year. You did the deal in Florida earlier this year. What are you're seeing in the market today and your ability to execute on that growth plan?

Ric: We are a net acquirer this year or have been. We acquired $200 million of properties in the first quarter. I think if you look at last year, there were about $17 billion in multifamily sales. Most people think it's going to be a bigger number this year, somewhere in the $20 billion range, primarily because you're in this cycle where merchant builder product has to come to market. In order for merchant builders to reload their balance sheets, they need to sell properties so they can start other ones, and there's a fair number of those properties around the country out there.

There seems to be a lot of capital in the market. At the National Multi-Housing Council Meeting in Orlando in late January, they had a record attendance of something like 6,000 people. Everyone that I talked to had a big wallet of capital they were going to spend. So I think that there's a pretty big bid out there. The challenge is going to be where you pick and choose your battles.

If you look at the properties that we bought in the first quarter, we targeted properties we could buy below replacement cost, just before they're stabilized. A lot of institutional investors won't buy a non-stabilized property or one where the concessions haven't been run through their system. We're targeting properties that have less competition on them, but we're going in with lower yields given that they're 85% occupied and still have concessions built into them. But we're willing to take a low yield knowing that we can stabilize them and get them up to a 5% yield, plus or minus, within the first year. I think there are going to be opportunities out there. We have guidance of $500 million, and we've done $200 million. I think that we should be able to execute that, and it will all depend on finding the right transactions.

Nick: You mentioned that capital may not be comfortable acquiring deals in pre-stabilization, but you see a strong bid right now for value-add. Why is that capital comfortable with doing value-add and putting the capital in to get achieved rents and not doing a pre-stabilized deal?

Ric: I think value-add looks to be a better return when you add the value-add proposition in. The story around the value-add is that you're going to change the nature of the property and therefore improve the yield and capture that excess return in a property that is a core property that doesn't have a lot of value-add sizzle. It's just a different proposition. The capital that is looking for core wants a real yield now and not something in the future, I think.

Nick: How much below replacement costs can you acquire today on those deals?

Ric: Depending on the market, anywhere from 7% to 15% plus or minus. 7% has been the lowest we've done and I think 15% was the highest. The challenge is that it depends on where you are. We have a piece of land here we're trying to build in South Florida. We built a property in Boca Raton with concrete construction and the same general contractor. For the land that we have in Plantation, the construction cost from 2013 to 2018 has gone up 65%. That doesn't include another $3 or $400,000 of steel after the steel tariff kicks in. And the rents have gone up 26%. So in a market like South Florida, you can probably buy at a bigger discount to replacement cost, and that's been driven primarily by the condo development that's happened. If you can sell a condo for $2,000 per foot, there's a big margin that you can make on that relative to the returns we need for multifamily. So it just depends on where you are, but for us it’s somewhere in the 7% to 15% discount range.

Nick: I think you talked about achieving stabilized yields of 100 BPs to 150 BPs above where your going-in yield is. Beyond just finishing the lease up and the burn-off with the concessions, is there anything else that Camden does to get that return?

Ric: We do. We add a technology package and I think we add value in a number of different ways. Oftentimes these properties that we’re buying are operated by third-party property management companies, and they’re not operated by owners. One of the things I think is really unique to Camden and to long-term ownership is the idea that customer service is a very important part of the equation. People often ask when you’re in a market today where starting rents are flat for somebody coming in the door, and you can renew at 5% or 6% higher, why wouldn’t you just charge the same rent? A lot of that has to do with customer service, customer satisfaction, and the ability to make sure the customer understands that there is a differentiation between the service they get from Camden versus a third-party property management company, and they’re willing to pay more for that.

Nick: Maybe in terms of those acquisitions, you’ve talked about the potential or longer-term potential to expand into Northern California and Seattle. Are you exploring any opportunities there? Do you think that could be a 2018 activity?

Ric: I would say it would be early for 2018 just because of where the markets are. I haven’t seen any below replacement cost transactions in those markets. They’re still very, very low cap rate markets. We still see transactions that are sub-4% in those markets, and there’s still a big bid from foreign capital that wants gateway markets, and they’re willing to pay prices that we won’t pay.

Nick: I think you mentioned obviously construction costs going up pretty meaningfully. How does that impact the decision of starting projects today for you on balance sheet?

Ric: Well, it definitely makes it harder. We’re very disciplined from that perspective. A good example would be our Camden Atlantic land holding. We’ve held it for three or four years now and haven’t started it. In retrospect, we probably should have started because costs have gone up 65% since 2013. I should have built it four years ago. But if it doesn’t hit our hurdles and we don’t believe we can get the right unleveraged IRR on that project and pay us for the risk of taking the developing risk and putting that capital out, we just won’t do it.

Nick: And in your markets today, where are you seeing the best development opportunities?

Ric: Right now the best development opportunities for ones we haven't started yet are probably in Phoenix. We have a Phase 2 of our North End (Mayo) property that looks like it would be a decent start. Atlanta still looks reasonable, and we're still building projects in Washington, D.C., which actually are doing really well. In terms of new starts beyond what we have today, we have a couple in Southern California that we hope to start by the end of 2018 or in early 2019.

Nick: Then you announced a redevelopment program beginning in 2018, for $25 to $30 million. What's attractive about that use of capital today and what are the expected returns?

Ric: We have spent about $275 million plus or minus on kitchen and bath upgrades in the portfolio and those are repositions. That's $10,000 to $15,000 per door - mostly kitchens, baths, flooring, and those kinds of things. Our redevelopment program is a lot bigger and broader structure, maybe $40,000 or $50,000 per door. A good example would be Camden Brickell, which is on Brickell Avenue in downtown Miami. On that project, we're re-doing a lot of the building infrastructure and the units themselves, so we're spending $40,000 to $50,000 in per-unit rehab. We believe we're going to get somewhere in high single digits, 8% to 9% cash-on-cash returns for those kind of investments.

Nick: Do you have a desire to do any preferred equity or mezz-lending?

Ric: No. We did plenty of that over the years and at the margins you can make incremental dollars. It's kind of interesting, but I fundamentally believe that your real estate investment department has to be focused on underwriting and thinking differently about real estate than we think. We have done mezz and joint ventures and in 2008-2009 we thought we were offloading risk by doing things like that; we were actually increasing risk because our partners didn't want to come to the table and do what we thought they would. So we ended up being the deep pockets, even while owning less than 50% of the assets. We have a very clean balance sheet now, and we're going to keep it clean.

Nick: Then maybe just short-term rentals and partnerships with Airbnb. Is that interesting at all?

Ric: So far, no, not with Airbnb, primarily because of regulatory and insurance issues. I think ultimately Airbnb will shake out. If we can find a way to not violate the zoning or insurance covenants or things like that, then we will figure it out. I think it's still too soon to tell how that's going to work. We've done surveys with our residents on whether they want to use Airbnb, and it's a very low percentage of people saying yes and they want to have somebody renting their apartment on the weekends. It's not a high-demand item for our residents. On certain properties, yes, but overall in our portfolio, no. Ultimately, if we can figure out a way to do all of those things and make it work and create value for Camden, we will.

Nick: We have our three rapid-fire questions. Do you expect public-to-public or public-to-private M&A in the apartment sector in 2018?

Ric: I would say public-to-private is the only thing I would expect, and that's iffy. If stock prices stay low for a long time, then I think it would happen, and long time could be through the end of the year.

Nick: What will same store NOI growth be for the apartment sector next year in 2019? It's 2% this year, on average.

Ric: 2.75%

Nick: And then finally, what will the 10-year Treasury yield be one year from today? Today is 2.9%.

Ric: 2.93%.

Nick: Great. Thank you much.