



First Quarter 2018 Earnings Call

May 4, 2018 - 10:00 AM CT

Kim Callahan – Camden Property Trust

Good morning, and thank you for joining Camden's first quarter 2018 earnings conference call. We played six songs today for our on-hold music, and these songs have one thing in common. If you know what that thing is, and why it is significant for Camden, please send me an email now at kcallahan@camdenliving.com. The first person with the correct answer gets a shout out on the call and the opportunity to help select music for next quarter's 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 2018 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, and 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, and good morning. Our operating results for the first quarter were slightly better than expected. Apartment demand continues to be driven by solid job growth in our markets, exceeding the national average. Supply pressure in many markets continues to be a headwind.

Houston is our most improved market. Revenues are accelerating, with occupancy normalizing as a result of Hurricane Harvey residents moving out and returning to their homes as expected. We are happy to have helped our neighbors during this difficult time for their families. We are now back to a more normal apartment market in Houston with an expanding economy and limited new supply over the next couple of years. I am proud of our teams from all over the country who came to help get apartments ready at record speed for people in need of housing after Hurricane Harvey. Our team displayed the true spirit of “HOUSTON STRONG” and how communities can come together when help is needed.

We acquired two properties during the quarter, and Alex will provide more details in his remarks. Our guidance for 2018 includes another \$200 million to \$400 million in acquisitions. The acquisition environment has become more competitive since the beginning of the year, with cap rates dropping at least 25 basis points in our markets driven by significant buyer interest and strong multifamily fundamentals.

Our development pipeline continues to create significant long-term value. We plan to start \$100 million to \$300 million of new projects this year. Subsequent to quarter-end, we acquired a shovel-ready high-rise development site in downtown Orlando from a developer who could not get financing completed. We plan to start construction this summer. Construction costs are exceeding rent increases in all of our markets and continue to put pressure on future development returns. All of our current projects under development are substantially bought out and not subject to a major risk of cost increases. We maintain the strongest balance sheet in the sector, which gives us maximum financial flexibility in this part of the real estate cycle.

We have a strong Camden team that delivers amazing customer service to our residents, which creates long-term value for shareholders. I appreciate what our team does every day.

I'll now turn the call over to Keith Oden.

Keith Oden – Camden Property Trust

Thanks Ric. Our first quarter revenue results were in-line with our plan, which bodes well for the balance of 2018. Overall, same store revenues were up 3.3% and up 0.3% sequentially. Most of our markets performed as expected with 50 basis points or less variance from our first quarter budget. Two exceptions would be Orlando and South Florida, which had a positive variance of more than 50 basis points to our original budget. The outperformance in Orlando placed it at the top for revenue growth in the quarter at 6.2%. Tampa, Raleigh and San Diego/Inland Empire each had 5.2% followed by Atlanta at 4.8% and Phoenix at 4.5%. As we expected, revenue growth was slightly below 2% in three markets, with Houston at 1.9% and DC Metro and Austin both at 1.6% growth. We expect better results in Houston and DC Metro over the next few quarters and anticipate getting to our full-year outlook of approximately 3% revenue growth in each market. The supply pressure in Austin will continue to be a big headwind throughout 2018 and will likely limit our full-year growth to roughly the same as the 1.6% we achieved this quarter.

Regarding rents on new leases and renewals, in the first quarter new leases were up 0.5% and renewals were up 5.5% for a blended growth rate of 2.7% versus 1.9% in 1Q17 and 2.3% last quarter. For April, prelims look to be up 2.0% on new leases and 5.5% on renewals for a blended growth rate of 3.5%. As expected, we've seen steady improvement from January through April on new lease pricing and we expect this trend to continue through our peak leasing season. A good indicator of continued improvement is that our May/June renewals were sent out at an average 6% increase.

Our qualified traffic continues to support above trend occupancy levels across our platform. We averaged 95.4% occupancy in 1Q18 versus 94.7% in 1Q17 and 95.7% in 4Q17. April 2018 occupancy is trending upward to 95.7% versus 95% last year. Net turnover for the quarter continued at historically low levels of 39% versus 40% last year. Move-outs to purchase homes fell to 14.1% versus 14.9% last year. That bears watching to see if it's an outlier or a reversal of the modest upward trend we've seen lately. The financial health of our residents continues to show strength as our average rent as a percentage of household income was 18.4% for the quarter, consistent with 2017 levels.

Finally, we recently received notice that for the 11th consecutive year Camden was included in Fortune Magazine's list of the 100 Best Places to Work. We claim this honor on behalf of the entire REIT industry as a benchmark of just how far we collectively have come in the last 25 years. I'd like to

thank every Camden Team member for making this possible. Your commitment to improving lives one experience at a time is why this is possible.

I'll turn the call over to Alex Jessett.

Alex Jessett – Camden Property Trust

Before I move on to our financial results and guidance, a brief update on our recent real estate activities. During the first quarter of 2018 we purchased Camden Pier District, a newly-constructed 358-unit, 18-story building in St. Petersburg, Florida for approximately \$127 million, and Camden North Quarter, a newly-constructed, 333-unit, 9-story building in Orlando, Florida for approximately \$81 million. At the time of acquisition, both communities were in the process of completing lease-up, and today Camden Pier District is 93% occupied and Camden North Quarter is 88% occupied.

Subsequent to quarter-end, we purchased an approximate 2-acre land parcel in the Lake Eola submarket of Orlando, Florida for \$11.4 million for the future development of a wholly-owned, \$120 million, 360-unit, 13-story building. We anticipate starting construction this summer. Including this development, we are anticipating \$100 million to \$300 million of on-balance sheet development starts spread throughout 2018.

Turning to financial results, last night we reported funds from operations for the first quarter of 2018 of \$111.4 million or \$1.15 per share, exceeding the midpoint of our guidance range by \$0.02 per share.

Our \$0.02 per share outperformance for the first quarter was primarily due to:

- approximately \$0.015 in lower same store operating expenses resulting from a combination of lower than anticipated repair and maintenance expense and lower than anticipated levels of self-insured employee health care costs. Of these lower operating expenses, approximately \$0.005 of repair and maintenance expense savings is timing-related with the expenses now expected to occur later in the year; and,
- approximately \$0.005 in higher acquisition net operating income resulting primarily from the timing of our Camden North Quarter acquisition. We completed this acquisition in mid-February as compared to our budget of mid-March.

As a result of the non-timing related same store expense savings of approximately \$0.01 we have reduced the midpoint of our full-year same store expense guidance from 4% to 3.5% and increased our 2018 same store NOI guidance by 20 basis points at the midpoint to 2.7%.

We also reaffirmed our prior 2018 FFO guidance of \$4.62 to \$4.82 with a midpoint of \$4.72. We anticipate that the \$0.015 first quarter outperformance, which is not associated with the timing of certain property level expenses, will be entirely offset by a \$0.005 decrease in NOI from our communities in lease-up due to a delay in opening our Camden McGowen Station development in Houston and a \$0.01 per share decrease in NOI due to the forecasted timing of future proforma acquisitions. Our current guidance anticipates \$300 million of additional acquisitions in the second half of 2018.

Last night we also provided earnings guidance for the second quarter of 2018. We expect FFO per share for the second quarter to be within the range of \$1.16 to \$1.20. The midpoint of \$1.18 represents a \$0.03 per share increase from our \$1.15 in the first quarter of 2018. This increase is primarily the result of:

- An approximate 2% or \$0.03 per share expected sequential increase in same store NOI, as we move into our peak leasing periods and receive anticipated property tax refunds; and,
- An approximate \$0.01 per share increase in NOI from our recent acquisitions and our communities in lease-up.

This \$0.04 per share aggregate improvement in FFO is partially offset by:

- An approximate \$0.01 per share decrease in FFO resulting from lower interest income due to lower cash balances, lower fee and asset management income due to lower amounts of third party construction income and higher overhead due to the timing of certain corporate expenses.

Our balance sheet is strong with net debt-to-EBITDA at 4.0 times, a total fixed charge coverage ratio at 5.4 times, secured debt to gross real estate assets at 11%, 81% of our assets unencumbered and 92% of our debt at fixed rates. We ended the quarter with no balances outstanding on our unsecured line of credit and \$100 million of cash on-hand. We have \$513 million of developments currently under construction, with \$229 million remaining to fund over the next two years.

Late in 2018 we anticipate repaying at maturity \$175 million of secured floating rate debt with an anticipated interest rate of 2.5% and repaying at par \$205 million of secured fixed rate debt with an interest rate of approximately 5.8%. Our current guidance does not anticipate any early debt prepayments and any resulting penalties. We currently anticipate issuing \$400 million of unsecured debt late in 2018 at a rate of approximately 3.8%. In anticipation of this offering we have entered into \$400 million of forward starting swaps effectively locking in the 10-year treasury at 2.65%.

And finally, some of you may have noticed in the footnotes to our income statement that we have adopted the new revenue recognition standard effective January 1, 2018. As a result, we are now presenting as rental revenues certain revenue items totaling approximately \$5.6 million which would have historically been included as a component of other property revenues. The major components of this reclassification include rental revenues associated with reletting, parking, storage and pets. This adoption does not change the sum of our total property revenues. This new presentation has been applied prospectively and therefore adjustments would need to be made to prior year periods for comparison purposes.

At this time, we'll open the call up to questions, but first turn the call over to Ric Campo.

Ric Campo – Camden Property Trust

Thanks Alex. We have a winner for the on-hold music contest, Austin Wurschmidt from KeyBanc. Austin identified that the on-hold music was the most popular songs released in 1993 and that 2018 was Camden's 25th anniversary as a public company. Clearly 1993 wasn't the best year for new music, but 1993 turned out to be a great year for multifamily companies to go public. Collectively, we have been at the forefront of innovation and operational excellence in the multifamily business for the past 25 years. It's interesting to note that only 25% of public companies make it to their 25th anniversary. Thanks Austin, we appreciate you getting that right.

We'll now open the call up to questions.

Austin Wurschmidt – Keybanc Capital Markets

Good morning. Just wanted to touch on Houston and get an update on operating trends you're seeing in the market and where occupancy sits today.

Keith Oden – Camden Property Trust

We're currently running in the 95% range for occupancy or just above that, as we indicated in our original guidance. We started talking about this on our third quarter call last year, which is the spike we saw in occupancy as a result of Hurricane Harvey. At one point we got to almost 98% occupied in our entire portfolio, which is never sustainable over a long period of time. The big uncertainty for us as we looked at the 2018 plan was how fast does that occupancy unwind happen? There was a lot of uncertainty regarding how long it was going to take people to get their homes back together as a result of the flood. We laid out a plan where we felt comfortable that over some period of time, we would get back to a more normal operating environment, which is around 95% occupancy. It looks like we're there based on our results for the first quarter. We're at 1.9% revenue growth, and our plan for the year indicates that we'll end the year somewhere around 3% revenue growth in Houston, which will be great given where we were at this point last year. If someone had said, "You're going to do 3% revenue growth in Houston in 2018", I would've looked at them really funny. But life is funny, and it looks like we're on track to do that. Things are returning to normal in Houston, and it looks like we're going to end up having a pretty decent year.

Austin Wurschmidt – Keybank Capital Markets

How are new lease and renewal rates trending from first quarter into the second quarter? Is there a disproportionate impact being driven by short-term lease renewals driving that number, or are they your typical 12-month leases that are renewing?

Keith Oden – Camden Property Trust

I think we're down to less than 1% of residents who have any connection to the flood. It's a very small number. If you looked at our short-term leases versus long-term trends, you wouldn't see any difference today in our rent roll from where we have been. It's business as usual, 12 and 15-month leases across our entire platform, which is what we wanted to get back to as quickly as we could.

Austin Wurschmidt – Keybank Capital Markets

What about new lease and renewal rates?

Keith Oden – Camden Property Trust

New leases are running about 0% and renewals 5%.

Austin Wurschmidt – Keybank Capital Markets

Regarding the timing of acquisitions, you mentioned it negatively impacted guidance. What are you seeing in the market? Is there a lack of deals or is it just the number of bidders today? Would you consider allocating a larger portion of those proceeds tagged to acquisitions towards development?

Ric Campo – Camden Property Trust

There are plenty of properties in the marketplace, but there are more buyers than there are properties. As I said at the beginning of the call, there's pressure on pricing given where we are in the market, and most people think we're late in the cycle. The 10-year treasury rose. REIT stock pricing has adjusted, but the private market hasn't adjusted at all. As a matter of fact, the private market has gotten more competitive, and it's harder for us to thread the needle in the type of properties we want. There are challenges on both sides of the equation for acquisitions and development. New developments where we haven't locked in our cost at this point are hard to underwrite, because you have rising construction costs in an environment where rental rates are not rising as fast as construction costs. It's a complicated place in the market, given the competitive ends on both acquisitions and development.

Austin Wurschmidt – Keybank Capital Markets

How much accretion was assumed? I know you assumed a lot of non-stabilized deals, but how much accretion is left in the guidance from acquisitions?

Alex Jessett – Camden Property Trust

The best way to think about it is what would happen if we didn't do any future acquisitions. That would probably reduce our midpoint by about \$0.02 per share.

Austin Wurschmidt – Keybank Capital Markets

Great, thanks.

Juan Sanabria – Bank of America/Merrill Lynch

On acquisitions you talked about a 25 basis point contraction in cap rates. Could you contextualize the timeframe for that decrease? What markets in particular, if any, are driving that? Is it more on the coasts or is it more Sunbelt?

Ric Campo – Camden Property Trust

The \$208 million that we acquired in the first quarter was all done in the latter part of 2017. Last quarter was interesting because there wasn't as much pressure on the buy-side. Buyers were hanging back waiting to see what was going to happen in the first quarter. We were at NMHC in January, and it was like a flood of people entering the market. I think NMHC had a record attendance of over 5,000 people, and there used to be 2,000-3,000 people. Every person we talked to had \$100 million to \$500 million of equity that they wanted to put into apartments. Generally, what happens in the cycle is that sellers start at NMHC in January. Then they start bringing product to the market in the first quarter through the second quarter, and try to get their deals done in the summer or the third quarter. There are a lot of properties that came out, but they were met with a major wall of equity capital that wanted to get placed. When we talk about a 25 basis point reduction in cap rates, it's in all of our markets. There's not a lot of differentiation in the markets today. If there's a high-quality, multifamily development deal that is being sold, it has multiple bidders. Prices have definitely been driven up and cap rates down in about a 60 to 90-day timeframe between the beginning of the year and where we are today. That's in the backdrop of the 10-year treasury going up 60 basis points. Most people are saying if the 10-year treasury goes up, then private real estate values have to drop. We've been saying all along that's just not the case. People look at relative returns to other assets, and multifamily even with headwinds from new development across the country is still a very high, sought-after asset class that has a lot of positive attributes from an investment perspective.

Keith Oden – Camden Property Trust

With regards to acquisitions and the opportunity set, as Ric mentioned, there wasn't a lot being traded in the fourth quarter of last year, and that's changed dramatically. Our acquisitions team is in various stages of preliminary underwriting on about 19 transactions that represent a total asking price of about \$1.8 billion, and these are just across Camden's relevant markets. They are high-quality, relatively new assets, in locations we would want to own. As to the ability to get to another \$200 million to \$400 million in acquisitions done, the good news is that there's a ton of product out there. The bad news is that it's all incredibly priced to perfection from our perspective. We just have to be patient, as we did with the St. Petersburg and Orlando assets. We think we made incredible value for those acquisitions, and it's hard to find. Of the 19 deals that we're currently looking at, maybe we'll get one. But on the other hand, maybe we won't. The good news is that it looks like there's going to be a ton of product in the market to choose from. We just have to find our spots. We are looking for discount to replacement

costs on an asset that we think Camden's platform can add value to, and get us to a stabilized return that makes sense for our allocation of capital.

Juan Sanabria – Bank of America/Merrill Lynch

On DC Metro, the first quarter was soft, but you were confident in your prepared remarks of around 3% revenue growth. What gives you that confidence? Can you share new lease trends, the acceleration you're seeing that underlies that confidence?

Keith Oden – Camden Property Trust

If you look at where we are in the first quarter, from an occupancy standpoint we're in really good shape. The post end-of-the-quarter momentum has continued to be really good in our DC Metro portfolio. Our DC Metro team continues to be very comfortable with our full-year forecast for DC Metro, and that rolls up to around 3%. It's going to get better. It's probably not going to be much in occupancy, it's going to be rental rate gain from this point forward. There are two sets of factors in DC Metro. One is DC Proper, and those communities are continuing to be under pressure from new supply. Fortunately for Camden, our footprint has some DC Proper, but it's substantially DC Metro. When you look at our results relative to some of our peers, it's going to look a little stronger, but it's primarily the mix of assets. When you get into the suburban scenario, the results are dictated by whether or not you have new supply that's directly competitive with our offerings. In most cases, we don't have much new supply that's directly competitive. I think we're comfortable that we'll get to 3% by year-end.

Juan Sanabria – Bank of America/Merrill Lynch

Thank you.

Rich Anderson – Mizuho Securities

Good morning. I'll ask the prerequisite two questions. If you knew things were trending better, as you kind of alluded to, in maintaining expectations for The Street, were you perhaps looking to get through leasing season before...(inaudible).

Keith Oden – Camden Property Trust

Rich, I got nothing for the last 20 seconds of your question. It's really garbled. Let's start over completely.

Rich Anderson – Mizuho Securities

Ok good, because it was a really bad question.

Ric Campo – Camden Property Trust

It's never a bad question, come on.

Rich Anderson – Mizuho Securities

If you had the expectation that things were getting better, and you kind of alluded to that this quarter in maintaining expectations for The Street, would you be inclined to wait to get through some of the leasing season first before getting ahead of yourself a little from your guidance?

Ric Campo – Camden Property Trust

It's hard to predict the next three quarters. When you get through a good first quarter, you tend to feel really good about it. Our teams feel really good about entering a strong leasing season. At the end of the day, you don't want to get ahead of your skis either. I would say that's probably a rational thing to think about.

Rich Anderson – Mizuho Securities

Given what you described about cap rates going down and Wall Street perhaps valuing you and everyone else not as you should be valued, and recognizing that there's only seven of you in terms of the mainstream multifamily REITs, the clearest path to outsize value creation is maybe through a full-on sale. I'm not saying it's you, but wouldn't you agree that that is a reasonable recipe for M&A, considering all the inputs?

Ric Campo – Camden Property Trust

Since we've been around for 25 years, we've heard that a few times. When valuations are out of favor, if you want to call it that on Wall Street, some people say you ought to maximize value by monetizing or by selling to a private company and unlocking that value. A private buyer is not going to buy Camden or anyone else without having a return expectation that is pretty robust. Is there disconnect between the value of the stock and NAV? Is it a permanent issue? Is that a value trap? Is there disconnect because the company is doing something wrong or is management not trusted? Are they making bad capital allocation decisions? If we thought there was a disconnect then we would sell the company, because we wouldn't create a long-term value trap for shareholders given that we're all big

shareholders. But if it's just a dislocation in the marketplace, like we've had many times over the last 25 years, then the question is why would I want to sell to a private company when I can ultimately create those returns for the shareholders that own the company today? That's my view on dislocation today. If it's a value trap and people don't have confidence in companies that are trying to create that value, then sell it and move on. But if it's a market dislocation, then we're going to create value for our shareholders.

Rich Anderson – Mizuho Securities

Thanks for the color.

Rich Hightower – Evercore ISI

Good morning. Are there any changes to your job forecasts across markets since the beginning of the year now that we've had a little time for tax reform to season? We've gotten some good data on net migration patterns recently. It's been in the headlines. Have the forecasts you're using changed at all since the beginning of the year? How has that been factored in the guidance, if at all at this point?

Keith Oden – Camden Property Trust

They haven't changed materially from what we were using when we issued our original guidance. The wild card over the next several years is the impact of tax reform and the acceleration of migration patterns that have been going on for a long time. There was some good research that was reported in The Wall Street Journal about a week ago that indicated that over the next couple of years as many as 800,000 people incrementally, as a result of the state and local tax deductions being limited, would come from the states of California and New York. In addition to the out-migration that has been going on for almost a decade in both of those states, the forecast was that an additional 800,000 people would leave due to the tax policy. The biggest beneficiary states that were listed for the 800,000 migration were Texas, Florida, Colorado and Arizona. Based on that list, we're probably a net beneficiary. We have some California exposure, but none in New York. We have exposure in all of the other markets where the study indicates these people are going to end up. There probably is a thesis that's a little longer term around the impact of tax reform, but from an employment/migration standpoint we haven't seen that yet. There's probably some of that out there that needs to be looked at over the next couple of years.

Rich Hightower – Evercore ISI

That's helpful. As a follow up to the cap rate question, capital allocation, etc., when you look at the convergence of cap rates, it sounds like it's reaching across markets, submarkets and across asset types vis-à-vis relative quality and all of those different metrics. How do those changes since the beginning of the year make you think about selling additional assets that weren't penciled as such in the original guidance?

Ric Campo – Camden Property Trust

We've sold over \$1.3 billion of assets in the last few years into very strong markets. Whenever you have major changes in the market, you have to think about it and say if I can't buy, what do I do? Oftentimes I'd tell our teams when we have a strategy – here's what we're supposed to be doing, but let's make sure we look at the market and say we can do anything. We can buy, we can sell, we can build. We can do nothing. We can buy stock back. We'll see how the hand plays through the rest of the year. Those discussions are happening every day, given the current environment we're in. We have a board meeting next week. We're going to talk a lot about where we are, where the cycle is, and where the best place to put capital is.

Rich Hightower – Evercore ISI

Great, thanks.

Nick Yulico – UBS Securities

Good morning. Turning back to Houston, I'm trying to reconcile the 0% new lease growth that you cited for Houston for your portfolio versus Axiometrics data showing over 4% market rent growth for Houston in the first quarter. What is the gap there? Is it that your portfolio is still facing supply pressure in some pockets, or is there a lag effect here where even if you're at flat rent growth now on a new lease basis, you're going to be getting closer to 4% in the spring, so that would be an improvement for you? Will you reconcile that for me?

Keith Oden – Camden Property Trust

Our guidance for the full-year on revenue growth in Houston is 3%. We're running 5%, plus or minus, on renewals as we speak. In order to close that gap and get to 3%, we need a contribution of 0.5% from new leases, roughly. We're flat year-to-date, but we do believe that will trend up. As far as what Axiometrics has in their numbers, I think in the fourth quarter of last year Axiometrics or Witten or

one of our data providers had Houston penciled at 8% rent growth for 2018. Some of it is a misunderstanding of how the rent roll changes over time. Again, I would say that if you go back to where we were last year and roll that forward, and say we'll be flat year-over-year on new leases, I would have been thrilled with that.

Ric Campo – Camden Property Trust

The other thing I would add is that we are constantly monitoring what our properties are doing relative to their submarkets via Performance Analytics. We're monitoring that and we are exceeding the submarket, both on occupancy and new leases. The problem with broad numbers from Witten or Axiometrics is that Houston is a big market. You can't just say "it's on average this". We're making sure that we are capturing every dollar we can through our revenue management team, and we feel pretty good about it.

Nick Yulico – UBS Securities

That's helpful. The point was that it feels like Houston as a market is really improving, the supply outlook is improving, and job growth is also improving. There's some acceleration in new rent growth baked into your Houston guidance for the year, but to some degree it feels like it's a little conservative. I'm trying to figure out in terms of how much better Houston could actually improve this year or if you're still facing some lingering supply pocket pressure that's going to actually keep you at the 3% revenue growth.

Keith Oden – Camden Property Trust

If you recall, we had pretty muted job growth in 2017, and there were 21,000 apartments delivered in Houston. Many of those are still going through their lease-up process, so it's very competitive. A lot of it's dependent on the geographical footprint of where your assets are located. A lot of the new supply that was built is in fact competitive with some of Camden's larger assets. I think it's all of the above, but the good news is if you roll back to the middle of last year, all of the data providers we use, including Witten, would have been calling for total rent growth in Houston in 2018 to be down another 4%. It means 4% negative versus what we think we're going to end up at 3% positive. It's a pretty remarkable turnaround. Some of what you're saying is true. Houston has gotten dramatically better in the last nine months, but dramatically better from a minus 4% scenario to plus 3%.

Nick Yulico – UBS Securities

If trends hold up, 2019 feels like a better year than 2018. Is that fair at this point?

Keith Oden – Camden Property Trust

Yes, based on the supply numbers. We delivered 21,000 apartments last year. We're kind of working our way through that. My guess is that by the end of this year, we'll be through the worst of that. The good news is that we only have about 6,000 completions slated for 2018 in Houston. In a market the size of Houston, that's a blip and very manageable in the scheme of things. All things being equal and with another decent year of job growth this year in Houston, 2019 feels like a better year and certainly more constructive.

Nick Yulico – UBS Securities

I appreciate it. Thank you everyone.

John Kim – BMO Capital Markets

It seems like everyone wants to be in Denver, and it's now your sixth largest market. Do you have an internal goal of making Denver a top five market for Camden? Can you talk about the acquisition environment in that market?

Keith Oden – Camden Property Trust

We've been a big fan of Denver for many years, going back to our entry into that market in 1998. It's caught a lot of other people's attention, including some of our peers in recent months and years. As far as internal targets on the percentage of assets in any individual market, we look at that. We think about it. We think about our position and whether we are overweight or underweight. We continue to believe that our Denver exposure is underweight relative to where we'd like it to be. The challenge is, as you say, everyone wants to be there at one time, which does bad things to pricing and affects greatly our appetite for expanding in this part of the cycle. We're certainly underweight in Denver versus where we would like to be, but it's not something we're going to force, given where we think we are in the cycle.

Ric Campo – Camden Property Trust

There are a couple of Denver properties in the \$1.8 billion of acquisitions Keith mentioned that we're looking at. Denver is a little more competitive than most places because it is a hotspot right now.

John Kim – BMO Capital Markets

The statement you made regarding the 25 basis point cap rate compression, I understand that's across all of your markets, but is that specifically for newly-built projects you're targeting, or is that also including Class B and core plus assets?

Ric Campo – Camden Property Trust

I think it's Class B and core plus assets. The value-add market is still hot, and value-add cap rates continue to compress as well. It's across the board and not just for specific types of assets.

John Kim – BMO Capital Markets

Thank you.

Alex Goldfarb – Sandler O'Neill

Good morning. Two questions for me. You seem to be more bullish on development activity. Speaking to private developers, including some large ones, it seems like keeping subcontractors on the job without them walking off is getting to be a harder issue. I appreciate the scale of your platform, but how do you keep people on the job site versus walking off to better paying jobs?

Ric Campo – Camden Property Trust

You have to be a best-in-class developer and owner. They say fast pay makes fast friends. You have to make sure you have very well-organized jobs so that when a subcontractor comes on the job, they get their work done and they don't have to wait for someone to get something else done or have to go back and redo it. A lot of it has to do with the platform and the way our construction teams operate. You want to be the company that the subcontractor wants to go work for, because they can get their work done and get paid quickly. The relationship that has developed over a period of time with subcontractors creates a team effect where they just don't walk off the job to get another 2% or 3%. We've been doing this for a long time, and our construction and development teams understand we have to take care of our subcontractors. From time-to-time a subcontractor will get upside down, and

you'll have to take them out and hire another subcontractor. That's where you have risk, but generally speaking, because we've been in this business for so long, we don't have a lot of that.

Alex Goldfarb – Sandler O'Neill

So the delay in the Houston project, we shouldn't take that as a read-through that we should expect more of those from you?

Ric Campo – Camden Property Trust

Even with the best subcontractors, we still have labor issues. Instead of bringing 200 people on a job, the subcontractors are bringing 150 or 100, so it's taking longer. Getting to the finish line, the last 3% or 4% of a job is the hardest to get done because you're fine-tuning things. In the case of our Houston project, McGowen Station, the issue was sidewalks in the front and the ability to get people in the front door. There were weather issues and other random things that happened too. I think this is universal to all companies, not just Camden, where you've had to add three to six months to every job because of labor shortages.

Alex Goldfarb – Sandler O'Neill

Okay, that's helpful. The second question is on the lending side. I was talking to Freddie Mac recently, and they said they're being outbid by banks. Fannie Mae activity in the first quarter was down dramatically. What is your take on what's going on in commercial lending? Are you seeing an impact in property transactions? Or is it that the banks and LifeCos are stepping up so that the property market and transaction volume isn't impacted? It's just more a shift in lenders?

Ric Campo – Camden Property Trust

There's definitely been a shift in lenders because Fannie and Freddie were getting, as you've pointed out, priced out of the market with LifeCos and banks. I don't think there's any real shortage of capital or anything like that. That's what's driving cap rate compression. This is primarily construction financing, where banks had to increase their spreads pretty dramatically and were cutting back proceeds. That's what happened to the developer in Orlando. What was happening then was their cost of capital was going up. The additional capital requirements on banks for being volatile commercial real estate construction loans was putting pressure on banks. Today, however, with new lower regulation administration, construction lenders are actually back in the market. Their spreads have contracted some. Instead of 300 over, now it's 225 to 250 over the curve. They're getting more

constructive about making construction loans today than they were in the past. I think that's the regulatory tilt you're seeing from the Trump administration. There is no shortage of capital. The challenge people are having is on the development side, as I said earlier, is making the numbers work on the construction and cost side. Freddie and Fannie have actually dropped their spreads and are more aggressive in the market trying to take back market share.

Alex Goldfarb – Sandler O'Neill

Ok, thank you.

Vincent Chao – Deutsche Bank

Good morning. On the \$1.8 billion pipeline and overall capital plan, it sounds like both sides, development and acquisitions, are somewhat challenging. Someone asked if you'd be interested in stepping up your development pipeline. If neither of those two avenues proves to be particularly attractive from a return perspective, what's the next best option for deployment?

Ric Campo – Camden Property Trust

That's a complicated issue. If you can't build and you can't buy, then what do you do? I think Keith hit the nail on the head earlier when he said you have to be patient. Sometimes you just have to say you're not going to play at this price. What you do then is keep your powder dry until you see something that makes sense or something changes in the marketplace. We're ready, willing and able to be patient. That's the key. We don't have a gun at our head to go out and buy properties. Alex pointed out \$0.02 of embedded accretion from that in our guidance earlier, but that doesn't mean we're going to do a transaction we think is wrong just to make \$0.02 of accretion. We'll just sit on cash and see what happens. If you think about where we are in the cycle, most people believe it's the latter part of a really long cycle. How long does this cycle continue? I don't know. It's the second longest economic expansion that we've had in my business career. It's been slow growth, and you haven't had rocket job growth, but you have to be careful at this point in the market. We'll make transactions work if they work, but we're not going to press the edge of the envelope if they don't.

Vincent Chao – Deutsche Bank

Ok, that sounds rational. A question on Dallas. You don't talk about a lot of markets. Dallas is still doing okay, but it saw some big deceleration on same store revenue growth this quarter. I think it was a

B+ market when you gave your initial outlook. I'm curious how that market is trending versus your expectations, and if you could remind us what you think Dallas will end up for the year.

Keith Oden – Camden Property Trust

On our report card last year we rated Dallas a B and declining, and I think that's still about right. We definitely took an occupancy hit in the quarter. In terms of 2018 deliveries, Dallas is dealing with about what Houston dealt with last year, around 22,000 deliveries. It's going to be a challenge in Dallas based on the amount of new supply that needs to be absorbed. The positive in Dallas is it's been a better job growth story for the last couple of years than Houston. But irrespective of your ratio of jobs to new deliveries, when you have 22,000 apartments that need to be absorbed in some fashion, if you happen to be in those submarkets or attendant to those submarkets, you're going to get smacked. We laid out a plan for Dallas for 2018 that we think properly anticipated the new supply that's going to come on-line. I think we're still on track with where we thought we would be in Dallas for 2018. Dallas, Austin, and Charlotte are our three most supply-impacted markets for Camden, and we think we've properly anticipated that for 2018.

Vincent Chao – Deutsche Bank

Thanks.

John Guinee – Stifel, Nicolaus & Co

You bought the St. Petersburg deal from Granvil Tracy at American Land, who by the way was very impressed with the level of your due diligence. I think it was a unique product in that the average unit size was bigger to target a different and older tenant. You bought it for about \$355,000 per unit. Can you talk about the uniqueness of that asset? Is \$355,000 more or less than replacement costs these days?

Ric Campo – Camden Property Trust

It's definitely a unique product. It is 1.5 blocks from the water, and is a larger average unit size. It sort of caters to two different groups. You do have smaller unit sizes that cater to Millennials, but also larger unit sizes that cater to an older crowd. The average age there is 46 years old, and the average age in our entire portfolio is low 30s. It is a unique asset. We think it's about 12% below replacement cost, and it was in the final stages of lease-up. We think it's a great buy, given its location in St. Petersburg. My initial reaction on St. Petersburg, even though we've been close to it for a long time, was that it was

sort of a sleepy kind of town, but it's really become a hotspot with downtown renovations and a lot of new hip restaurants. Big public investments in the Pier District have been made and are coming. It's a real happening place in the Tampa/St. Petersburg area.

John Guinee – Stifel, Nicolaus & Co

You paid about \$32,000 per unit for a little less than two acres in Orlando. Incredibly high density, 200 units per acre. What do you think the total project cost would be for an asset like that?

Ric Campo – Camden Property Trust

Our project cost is \$120 million on that project. It is a high-rise, so it's a block-and-plank construction, which is basically a concrete product. It's 1.5 or 2 blocks from Lake Eola, which is a great spot in Orlando and a very walkable neighborhood. We're really excited about that project.

John Guinee – Stifel, Nicolaus & Co

Great. Thank you very much.

Ryan Lumb – Green Street Advisors

With regard to the property tax assessments, outside of typical catch-up between assessed values and market values, are you seeing any change from municipalities or cities that goes beyond the changes in recent market values that is driven more so by fiscally strained local or state budgets?

Alex Jessett – Camden Property Trust

When you look at our property tax valuations, what typically happens is there's a little bit of a lag. I don't think the increases we saw last year were really driven by funding issues. I think it was more an issue of playing catch-up with valuation increases that had happened in past years. At one point, there were some discussions around Houston and whether the property taxes were going to be outsized based upon funding issues in Houston, but we seem to have moved past that.

Ryan Lumb – Green Street Advisors

That's helpful. The outlook for redevelopment over the next three to five years, do you think it stays somewhere in this \$25 million range, or does it grow meaningfully from here?

Keith Oden – Camden Property Trust

I think it shrinks from here. The reason for that is we're getting pretty close to the end of the group of assets that on a catch-up basis are suitable for redevelopment. You need to be able to get a substantial pickup in rent to make these things work. There's a natural breakpoint for assets somewhere around the 10 to 12-year mark, with great locations but clearly last cycle product. If you can go in and make last-cycle product look and feel to the consumer like current-cycle product, most people with an untrained eye wouldn't even notice that it was a 10 to 12-year-old product. Then you can reprice that home that's basically pricing off of the new deliveries and new construction. We're getting pretty close to the stuff that was pent-up in our portfolio and had the right attributes. I think going forward it's going to be more of, as things hit that magic mark in age, location, and quality, that we add redevelopments.

Ryan Lumb – Green Street Advisors

Great. That's all for me. Thanks.

Ric Campo – Camden Property Trust

I appreciate your time on the call today, and we look forward to seeing you at NAREIT in June.
Thanks.

Edited for readability.