Second Quarter 2017 Earnings Call

July 28, 2017 - 11:00 AM CT

Kim Callahan – Camden Property Trust

Good morning, and thank you for joining Camden's second 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 second 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 as we are the first of three back-to-back multifamily calls today. 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. Our music today was provided by recording star Ed Sheeran. As recently as 2013, Sheeran was best known in the U.S. as the opening act for Taylor Swift's North American Tour. This year Sheeran became the first recording artist to have two songs debut in the top 10 on U.S. charts in the same week and had a notable guest appearance on Game of Thrones. Sheeran's story is a reminder of both how quickly things can accelerate if you are talented and are working in the right environment,

and that the pace of change in all areas of our resident's lives is faster than ever and will likely continue to accelerate. Our residents are increasingly choosing to live in communities that understand and adapt to their evolving lifestyle choices. As Malcolm Stewart, Camden's Chief Operating Officer often reminds us – you don't have to be young, you just have to think young. Our operations teams continue to produce solid results for Camden during the second quarter and for the year. I appreciate their dedication to improving the lives of our customers one experience at a time.

Apartment demand continues to be strong, driven by positive demographics and a secular shift to rental housing as part of the sharing economy. Millennials are driving the sharing economy and are more interested in experiential activities as opposed to acquiring things, including single-family homes. On the other end of the demographic spectrum, empty nesters are leaving their suburban houses for rentals in urban locations to take advantage of less commute time and more robust entertainment options. New supply competition is currently a factor in many of our markets; however deliveries should peak this year.

We continued our capital recycling program this quarter with the acquisition of Camden Buckhead Square in Atlanta. This was our first acquisition in nearly three years. Last year we sold $1.2 billion in older non-core properties. The proceeds were used to fund our development pipeline, pay down debt, pay a special dividend, and now to fund Camden Buckhead Square. Camden Buckhead Square was acquired at below replacement cost with a 5% FFO yield. Given the inventory of merchant built product in the market combined with rising land and construction costs, we believe that other acquisition opportunities will be available going forward. Subsequent to quarter-end, we entered into an agreement to sell Camden Miramar, our only student housing property.

The Houston apartment market is still challenging with new deliveries exceeding demand. We expect the market to stabilize next year. New construction starts peaked in 2014 at 24,000, and have steadily declined with 8,000 starts in 2016 and 6,000 starts expected each year in 2017 and 2018. While new deliveries have been delayed due to labor shortages, excess inventory should clear during 2018 and set Houston up for rent growth again. Houston has a long history of strong recoveries following market weakness. Based on our view that there will be limited completions and competition from new development in 2019 and 2020, we have decided to go forward with the construction of our downtown Houston project, Camden Downtown. Construction will begin in the fourth quarter of 2017, with lease-up beginning in the fourth quarter of 2019 and stabilization in 2020. Camden Downtown represents a countercyclical opportunity to lock in construction costs at a time when it is difficult for developers to

get equity or construction financing. We're looking forward to finishing the year off strong, and our management and operations teams are focused on that.

I'll turn the call over to Keith Oden.

Keith Oden – Camden Property Trust

Thanks Ric. We are very pleased with our results which were in line with our expectations for both the quarter and year-to-date. Overall conditions remain healthy across our portfolio. Sequential revenue growth was 1.8% with every market posting a positive sequential increase. Yes, even Houston. Other than the transactions Ric covered, from our perspective this was a very routine quarter, so I'll be brief with my remarks to allow more time for what's on your mind.

Turning to same store results, revenue growth was 3.1% for the quarter and 3.0% year-to-date. Most of our markets had revenue growth between 3% and 6% for the quarter led by San Diego/Inland Empire at 6.1%, Denver at 5.8%, Los Angeles/Orange County at 5.6%, Dallas at 4.9%, and Atlanta at 4.8%. Expenses fell sequentially by 0.5% in the second quarter with a number of puts and takes, which Alex will address, leaving us with same store NOI growth of 3.2% sequentially and 4.1% for the second quarter. Houston revenues fell 3.7% compared to the second quarter of 2016. Year-to-date revenues are down 3.5% which keeps us on track to meet our full-year forecast of a roughly 4% revenue decline for the year. We expect to continue to see weak conditions in Houston as new supply continues to pressure merchant built communities who continue to offer 2-3 months free rent as a lease-up concession. In Washington, DC, revenue growth outperformed our overall portfolio results with 4.2% revenue growth for the second quarter and 4.0% revenue growth year-to-date. We continue to be encouraged by the trends in our Washington, DC portfolio.

As we look at our markets and how we expect them to perform in the second half of the year versus our original plan, we see relatively minor variances. The top four outperforming markets relative to plan are projected to be Denver, Southern California, Dallas, and Orlando. This outperformance relative to plan is being offset by lower than plan revenues in Austin, Charlotte and Southeast Florida due to direct competition from pockets of new supply.

Rents on new leases and renewals continue to look good for achieving our outlook for full-year results. Second quarter new leases were up 1.6% and renewals were up 4.9%, for a blended rate of 3.0%. July new leases and renewals are in line with the second quarter numbers. We're sending out August and

September renewal offers at an average increase of 5.5%. Additional operating stats for the quarter continue to support our full-year outlook. Same store occupancy in the second quarter averaged 95.4% versus 94.8% in the first quarter and 95.4% in the second quarter of last year. July occupancy was 95.6% versus 95.7% for the same period last year. Net turnover for the quarter was flat at 52% versus 51% for the prior year, and 46% versus 47% year-to-date. Moveouts to home purchases were 15.6% for the quarter with an as-expected seasonal increase from 14.9% in the first quarter. 2017 moveouts to purchase homes are in line with 2016 levels but still well below the long-term trend.

I'll turn the call over to Alex Jessett, Camden's Chief Financial Officer.

Alex Jessett – Camden Property Trust

Thanks Keith. Before I move on to our financial results and guidance, a brief update on our recent real estate activities. During the second quarter we reached stabilization at Camden Gallery, a $59 million development in Charlotte which is currently 97% occupied and is expected to achieve a 7.75% stabilized yield. Also during the quarter we completed construction at Camden NoMa II in Washington, DC, and began construction at Camden Grandview II in Charlotte, NC. Additionally, we acquired an 8.2-acre land parcel in San Diego for $20 million for future development, and Camden Buckhead Square, a 250-unit stabilized operating community in the Buckhead submarket of Atlanta for $58 million. We purchased this 2015 built community at an approximate 12% discount to replacement cost and expect it to generate an approximate 5% yield. And finally, subsequent to quarter-end we entered into a contract to sell Camden Miramar, our only student-housing community, which is located in Corpus Christi, TX, for approximately $78 million. Closing of this sale is not guaranteed and is subject to, among other items, the satisfactory due diligence and financing by the purchaser. However, as I will discuss later, we have included the impact of this sale in the midpoint of our revised earnings guidance.

We have $670 million of development currently under construction or in lease-up, with $170 million left to fund over the next two years. We anticipate up to $300 million of additional on-balance sheet development starts later in 2017. Our balance sheet remains one of the best in REIT world with Net Debt-to-EBITDA at 4.5 times, fixed charge expense coverage ratio at 5.7 times, secured debt to gross real estate assets at 11%, 80% of our assets unencumbered, and 88% of our debt at fixed rates.
Turning to financial results, last night we reported funds from operations for the second quarter of 2017 of $106 million, or $1.15 per share, exceeding the midpoint of our guidance range by $0.02 per share.

This $0.02 per share outperformance for the second quarter was primarily due to:

- $0.01 per share in higher same store NOI resulting from a combination of higher than anticipated occupancy, and both lower than anticipated repair and maintenance costs due to general cost control measures and lower employee benefit costs as we continue to experience better than anticipated levels of health insurance and workers compensation claims.
- ½ 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,
- ¼ cent from the previously mentioned Atlanta acquisition, and
- ¼ cent from a combination of higher interest income and lower overhead costs.

We updated and revised 2017 full-year same store and FFO guidance based on our year-to-date operating performance and our expectations for the remainder of the year. Our same store revenue performance has been slightly better than expected for the first six months of the year driven primarily by higher levels of occupancy. We are encouraged by this trend however it is still too early to tell how pockets of supply will affect a few of our markets for the remainder of 2017. Therefore we are maintaining the midpoint of our same store revenue growth guidance at 2.8%, but are tightening the range to 2.55% to 3.05%. We have reduced the midpoint of our same store expense guidance from 4.5% to 4.1% and tightened the range to 3.85% to 4.35% as a result of actual and anticipated lower expenses related to health insurance and workers compensation claims, and successful property tax appeals primarily in Houston. We now expect our full-year 2017 property tax increase to be 4.75% as compared to our original budget of 5.5%. As a result of reducing our full-year expense guidance we have increased our 2017 same store NOI guidance by 20 basis points at the midpoint to 2.0% and tightened the range to 1.5% to 2.5%.

Last night we also reaffirmed and tightened the range for our full-year 2017 FFO per share. Our new range is $4.51 to $4.63 with a midpoint of $4.57. Although the midpoint is unchanged there have been some changes to the underlying assumptions. As compared to our prior guidance, our new guidance assumes an additional:

- $0.01 per share from our 20 basis point increase in same store NOI,
- 1.5 cents per share from the acquisition of Camden Buckhead Square late in the second quarter,
- And a ½ cent per share in additional contributions from the accelerated leasing of our development communities partially offset by lower levels of interest capitalization.

This $0.03 of aggregate improvement is entirely offset by the anticipated disposition of our Camden Miramar student housing community in the beginning of the fourth quarter. We built and have owned Camden Miramar since 1994. Over the past 23 years this has been a very successful investment for Camden and our shareholders. Upon disposition, we anticipate this investment will have generated a 16.5% unleveraged internal rate of return over its 23-year hold period. We believe this is an appropriate time to make this strategic disposition given this asset is located on a ground lease with just over 20 years remaining. At the contract price, this disposition represents an AFFO yield of 8.75%. This disposition will have a meaningful impact to our fourth quarter NOI as the community will be fully occupied for the fall semester. As a reminder, occupancy and NOI at this community are strong during the school term, but decline significantly during the summer months.

Last night we also provided earnings guidance for the third quarter of 2017. We expect FFO per share for the third quarter to be within the range of $1.14 to $1.18. The midpoint of $1.16 represents a $0.01 per share increase from our $1.15 per share reported in the second quarter of 2017. This increase is primarily the result of:

- An approximate ¾ cent per share increase in NOI from our development and non-same store communities,
- An approximate ½ cent per share increase in FFO relating to our completed Atlanta acquisition,
- And, an approximate ½ cent per share increase in FFO due to lower interest expense, as the interest savings from repaying our 5.83% $247 million unsecured bond at maturity on May 15th is partially offset by borrowings on our line of credit, higher rates on our secured floating rate debt, and lower levels of capitalized interest. As a reminder, we still anticipate issuing a $300 million unsecured bond later this year.

This 1 ¾ cent per share aggregate improvement in FFO is partially offset by:

- An approximate ½ cent per share increase in income tax expense due to a non-recurring Texas margin tax refund resulting from a prior year reduction in rates which we recognized in the second quarter.

Our sequential NOI is anticipated to be relatively flat as revenue growth from higher rental and fee income in our peak leasing periods is offset by our expected increase in property expenses due to normal seasonal summer increases in utilities and repair and maintenance costs and the timing of certain property tax refunds recognized in the second quarter.

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

Nick Joseph – Citigroup

I want to start on Houston. You mentioned a potential stabilization next year. Just curious if that's more of a flattening of rent growth year-over-year, or if you think there could be a slight acceleration. Is it less of a fall than what you've seen this year?

Keith Oden – Camden Property Trust

Without getting into forward-looking NOI growth projections for Houston, when we think about stabilization, we're thinking in terms of absorbing the excess of supply that has to get through the system and find a resident. Once that happens, then you can start thinking about getting back to a more normalized occupancy rate, and beyond that you can start thinking about rental increases. We know we've got excess inventory for Houston in 2018. It's in the process of being aggressively marketed by merchant builders to put in place. Lease concessions of 2 to 3 months are common in lease-up communities. They're trying to find the market, and they will. They're making good progress, and I think we're going to continue seeing good absorption. If you roll forward to 2018 and if things stay as they're currently projected, we think we're only going to see another 6,000 or so apartments in Houston. And if you take the midpoint between Witten and Axio's forecasts for job growth in Houston, it's somewhere in the 45,000 range for 2018. That's more than sufficient to not only put stabilization in place, but also repair occupancy rates, and then beyond that, to look for rental rate increases. We've said previously that we thought 2017 at -4% top line revenues would be the bottom in the cycle, and we still believe that.

Nick Joseph – Citigroup

In terms of development, you mentioned starting a new project in Charlotte, buying land in San Diego and starting a project in Houston later this year. What are the expected yields on those developments, and how do those compare to development currently in progress?

Ric Campo – Camden Property Trust

Current development yields are around 7%, when you average in the really high ones versus the lower ones. The San Diego transactions are going to be in the 5.5% to 6.0% stabilized range, but the Houston transactions need to be higher. Generally, we're looking at stabilized yields of 6.5% plus or minus today. Yields are down from some of the ones we've been able to get. For example, Camden NoMa II is an 8% yield, and that's hard to do today. We bought the land at a good price a while back, and were

able to hit the market really well with a dip in the construction environment there. Lease-up is going really well. But today, with land and construction costs rising in every market and labor shortages, it's tougher to get to those numbers. We're probably 50 basis points down on our development yields from where we were a year ago.

Nick Joseph – Citigroup

Are those in-place or trended rents?

Ric Campo – Camden Property Trust

In Houston, it would be trended rents because you can't take three months free on a new development and then apply that to a development model and make it work. Generally, they tend to be on trended rents.

Nick Joseph – Citigroup

Thank you.

Austin Wurschmidt – Keybanc Capital Markets

You saw some good acceleration in Houston's occupancy this quarter. Do you think that's no longer going to be a drag on same store revenue growth going forward, and if that first quarter occupancy of 92.3% could end up being a bottom in occupancy in that market?

Keith Oden – Camden Property Trust

We were pleased to make some progress in the second quarter, and ended the quarter at about 93.1% occupancy. Relative to our overall portfolio, that's almost 2.5% below where we are on average throughout the rest of our portfolio. Clearly, it's a laggard. In terms of 92.3% being a low-water mark, if you're looking out 60 to 90 days on our preleased occupancy, I think we're in pretty good shape to make some additional progress on occupancy in the third quarter. Consistent with our view that 2017 is probably the low-water mark in terms of a 4% top line revenue decline, it's a decent proposition that 92.3% occupancy is the low-water mark. We're in no way satisfied with that 93.1%, and we're working our tails off to get that back to a more normalized rate, because until you get occupancy back to the 95% range, you're not going to make any headway on new leases.

Austin Wurschmidt – Keybanc Capital Markets

Thanks for the detail. There's been some strength in the Houston housing market here recently. What are your thoughts on the impact that can have to the rental market and whether or not you think that will take share from rentals?

Ric Campo – Camden Property Trust

In the last 24 to 36 months we spent a lot of time talking about energy and what was going to happen to the Houston market overall. If you look at certain segments of the market and you're in the office building business, it's kind of a tough market. Multifamily is tough, but not like office space. When you look at industrial, retail, and single family, the market hasn't missed a beat. Houston has a shortage of quality single family homes, and the market has been very good and robust. Last month, I believe Houston had a record number of home sales at high prices. Houston has done really well with single family homes, and it hasn't been a real issue for the economy overall. But when you get down to the issue of rental versus owned, or people losing market share to homes, we really don't see a massive change in that scenario. Generally, when people make a decision to either rent or buy it’s not based on money; it's based on their lifestyle and age group. We haven't seen a tremendous amount on that.

Keith Oden – Camden Property Trust

Ric is right. I believe I saw a report that June was possibly the highest level of single family home sales in the history of Houston, which is pretty remarkable in itself. Moveouts to purchase homes in our portfolio was about 16% in Houston, and that compares to 15% for the whole portfolio. There are a lot of people buying homes, but they're not in large numbers coming out of our apartments.

Austin Wurschmidt – Keybanc Capital Markets

How does that 16% compare to this time last year or last quarter?

Keith Oden – Camden Property Trust

16.5% in the first quarter of 2017, but if you go back to the fourth quarter it was 15.9%.

Austin Wurschmidt – Keybanc Capital Markets

Thank you.

Juan Sanabria – Bank of America/Merrill Lynch

Can you give more commentary on Washington, DC? You seem more upbeat than some of the other REITs have commented. I was hoping you could talk about supply and where you're seeing pressures or not relative to the broader MSA?

Keith Oden – Camden Property Trust

There's been a fair amount of people trying to reconcile where we are and what some of our competitors have announced in their commentary. We said last quarter that we felt pretty constructive about where we were in our Washington, DC portfolio. But we also mentioned that we have a fairly different footprint in Washington, DC than some of our competitors. We guess someone might want to put some numbers around that, but we've looked at it and dug into our footprint on where the performance is coming from. People can reconcile this and try to figure out whether it's in the footprint or something else. Our Northern Virginia portfolio had 5% revenue growth in the second quarter, which is way better than the average of all of our other markets combined. But if you look to our Maryland portfolio, it was about 3.5% revenue growth. The area where I think the differential occurs is in the DC Proper submarket. Our growth for the quarter was 2.2%, and that's a divergence because up until the middle of last year, the DC Proper portfolio had consistently outperformed our Northern Virginia and Maryland portfolios. But that's flipped and we have a much higher NOI contribution from Northern Virginia than we do from DC Proper. A fair amount of it is just the distribution of our assets versus some of our competitors. In terms of overall supply versus job growth, it looks like equilibrium for 2017, then they actually get better in 2018. We continue to be constructive on Washington, DC, and my guess is that it's more footprint than anything else.

Juan Sanabria – Bank of America/Merrill Lynch

Could you give us a sense of, particularly top line same store revenues, where you feel the most comfortable within the range and points of variability to hit the top or the bottom at this point?

Keith Oden – Camden Property Trust

We tightened the range quite a bit. I think it really comes down to how much of an impact new supply has in the second half of 2017. There's a fair amount of anecdotal evidence, and not only in our own portfolio. We've had conversations with some of our competitors who have reported a lot of slippage in the delivery of multifamily units. To the extent that phenomenon has happened to any meaningful degree in Camden's markets, apartments that we thought were going to be delivered in the first half may end up rolling over to the second half of 2017. From our perspective, the range is more about how

much supply has slipped, how much of it didn't show up in the first half and how much of it is going to be delivered in the second half of the year. I think our range is very appropriate for where we are halfway through the year.

Juan Sanabria – Bank of America/Merrill Lynch

What's your expected slip between supply deliveries in the first half of 2017 versus the second half? Any thoughts on the expense decline in 2018?

Keith Oden – Camden Property Trust

There's a fair amount of difference between Witten and Axio's forecasts for completions in 2017 and 2018 for our markets. The average of the two providers show 150,000 apartments in 2017 dropping to about 125,000 in 2018, so a 25,000 – 30,000 drop across Camden's portfolio. If you look at the second half of 2017 versus the first half of 2018, we see a drop of roughly 14,000 apartments in Camden's portfolio. There's a fair amount of consistency in the data that would indicate what we've said all along, which is that 2017 is going to be the high-water mark for completions in Camden's portfolio. There's certainly the possibility that some of those completions scheduled for the second half of 2017 carry over to 2018, but I'd be surprised if they carried over enough to flip total completions in 2018 to be higher than 2017.

Juan Sanabria – Bank of America/Merrill Lynch

Thank you.

Rob Stevenson – Janney Capital Markets

Good morning. Keith, you talked about the Washington, DC market a bit, and you also talked about Dallas being a performer. Are there any material differentials between the various submarkets in Dallas that you operate in?

Keith Oden – Camden Property Trust

Dallas is having the same experience that Houston is having in supply-driven submarkets. The Uptown area of Dallas is kind of awash right now in inventory, and we're certainly feeling that. We're feeling it at Camden Victory Park. There's a fair amount of new product that we're directly competitive with. Our suburban assets in Dallas have more of a Houston-like experience. They're outperforming the urban core assets anywhere from 100 to 200 basis points, so there is a differential. It's primarily supply-driven. The reality is, the preponderance of supply on a percentage basis has been more in the

urban core area. That's true in Dallas, and that's also true in Houston. Now, Dallas has not experienced anything like Houston. We continue to grow top line rents in our Dallas portfolio, and our urban assets are contributing to the growth. They're just not at the top of the market anymore relative to our suburban assets. It's a similar experience, and the big difference has been that Houston delivered 10,000 or 11,000 jobs in 2016 and Dallas delivered 80,000. It's still a real dynamic economy that so far has been able to absorb the new inventory coming on line. In submarkets where you have a lot of new supply, you're going to be impacted.

Rob Stevenson – Janney Capital Markets

Alex, given your comments on some of the benefit savings, when you're looking at same store portfolio and the expense growth with what you're continuing to see from property taxes, some inflation in payroll, and some other line items, is there any reason to believe that same store expenses are not going to grow at the 4% rate for the foreseeable future, any signs of hope?

Alex Jessett – Camden Property Trust

The signs of hope that I would point out, especially for our portfolio, are two things. Number one, although we've been successful in 2017 on the property tax side, we still do have property taxes increasing 4.75%. That should revert back to the norm of about 3% very soon. The second sign of hope is that the insurance market still continues to be very favorable for us. And hopefully, when we go through our renewal next year, we'll start to see some benefits from that.

Rob Stevenson – Janney Capital Markets

Is that offset by wage pressure? What are you seeing there?

Alex Jessett – Camden Property Trust

For Camden specifically, when you look at our full-year salaries we think it's going to be relatively flat in 2017 as compared to 2016, and that's driven by lower than expected benefits and lower than expected worker's compensation claims. Once you strip those out, we're still around the 3% range.

Rob Stevenson – Janney Capital Markets

Thank you.

John Kim – BMO Capital Markets

Good morning. You talked about your first acquisition in nearly three years and some opportunities going forward. I'm wondering how much cap rates have moved up for new product, and how much you expect to acquire over the next 12 months.

Ric Campo – Camden Property Trust

I don't think that cap rates have moved up much for new product. There's still a big demand for product. It was certainly interesting in the first quarter. You had a 17% decline in multifamily sales nationwide. It was maybe down 1% in the second quarter, but that also included the acquisition of Monogram by Greystar. Fundamentally, even though the bid is down a bit, cap rates are still very sticky, especially for high-quality properties. Part of the issue you get into with merchant builder product that needs to clear the market over the next couple of years is that historically, the merchant builder margins have been incredibly wide. Instead of a 10% to maybe 20% margin on their cost, which is a good day's work for a merchant builder generally, the margins are more like 50% to 60%. When you think about NOI, it's depressed because of the free rent in the marketplace. Cap rates really haven't gone up. What's happened is that the NOI has gone down. Then you'd take the juxtaposition of what the asset value is relative to replacement cost. In the case of Camden Buckhead Square, we bought that property at $230,000 per door, plus or minus, and we think the cost to replace it is $260,000 per door. On the one hand, the cap rate was low, but there's free rent embedded in the market. For us to replace that product today it's 12% above what we bought it for. I think that's going to continue to have a dampening effect on cap rates.

The deals trading in Houston, for example, are sub 4% cap rates. There's a deal in downtown Houston that is trading at a 3.6% current cash-on-cash return. It's brand new, it's in downtown, and it has 2.5 months free rent embedded in it. People are able to buy that at below replacement cost at a low cap rate because they're buying by the pound. Fundamentally, people believe and know based on history that the rental rates will go up. If you look at Houston, for example, revenue growth was 8.2% in 2001, 0.9% in 2002 and (4.3%) in 2003. It took a couple of years to stabilize during that period, then we had three or four years of over 5% growth. The same thing happened in the last downturn. People are not going to say, "Well, I have to have a higher cap rate, and I'm not going to take into account the idea that free rent burns off." They're basically buying by the pound now, and therefore, cap rates haven't really gone up.

John Kim – BMO Capital Markets

But given this unique dynamic of buying below replacement cost, how big can this acquisition program be?

Ric Campo – Camden Property Trust

In our guidance today, we generally have net zero acquisitions versus dispositions. It's an evolving market. This could be a big acquisition opportunity over the next 18 months. We're nibbling at the edges right now. There's going to be a lot more product coming in the next two or three years. We could easily increase our acquisition appetite to $300 million plus or minus, but at this point, we're just waiting to see. We have an incredibly strong balance sheet, and we have capacity to acquire. These are the kinds of properties we're going to acquire in the future. We haven't acquired a lot in the last three years, so we clearly have an appetite to grow. We've positioned our portfolio and balance sheet to be able to grow through development and acquisitions, and we plan on it.

John Kim – BMO Capital Markets

Given your success in student housing, why have you not invested more historically? Is it just too different of a business from multifamily?

Ric Campo – Camden Property Trust

If you think about the food chain in multifamily, student housing is a great business. The challenge with student housing is cash flow volatility. Camden Miramar is 100% leased today, but in the summer it was 40% leased. The volatility of cash flows is one thing. The other issue has to do with managing that business. It's different from managing market rate housing. You can make the same argument for senior housing. We have a couple of 55+ age restricted properties, and it is just a different world. You have to have a different mindset and strategy. Student and senior housing companies do a great job. But when you mix them together, it becomes a more complicated effort. I'd rather keep our management teams focused on what they do best, which is market rate housing that they understand really well.

John Kim – BMO Capital Markets

That makes sense. Thank you.

Alex Goldfarb – Sandler O'Neill

Good morning. I want to go back to merchant builders and the pricing opportunity you're seeing. You bought a development site in San Diego, but at the same time, we're talking about an increasing opportunity potentially to acquire some of these merchant built developments over the next few years. Do you see dialing back on the development front as more merchant built opportunity comes up, or is there a balance between the two and that the IRRs you're seeing either on development or acquiring merchant assets is pretty similar?

Keith Oden – Camden Property Trust

The opportunity on merchant built product is very submarket specific. If you think about our Buckhead acquisition, there were about 2,500 apartments that were delivered in an 18 month window in that submarket. Overall in Atlanta, that's not a huge deal, but 2,500 new apartments in Buckhead is a huge deal. You had this supply bubble where merchant builders had to respond by meeting the market from a pricing standpoint. They compete, they embed free rent in their rent roll. They get to the end of their natural ownership period where investors are looking for a repatriation of capital, but they haven't burned off all the embedded rent concessions. You have an impaired rent roll because of the competition that came on line roughly at the same time. It's very submarket specific.

Having said that, there are a number of submarkets we're in that have this condition either currently or coming, and we know of them. Charlotte is going to have some opportunities, and we know about the Houston story. That side of it is more dependent on the current supply challenge that we have in a number of our markets. Separate from that is the San Diego transaction. The reality is that we probably won't start construction on it for another 18 months. Then you've got two years to deliver the final product, so we're three years out. It's in a submarket in San Diego where there's been virtually no new construction. It's a different animal. We would love to do both. If we had the opportunity to acquire $400-$500 million of assets like Camden Buckhead Square that had exactly those economics in submarkets that we're either in or want to be in within our existing footprint, we'd buy them.

Ric Campo – Camden Property Trust

When you get down to it, if we can make a risk-adjusted rate of return on development, we'll do it. If we can make a risk-adjusted rate of return on acquiring the merchant builder product, we'll do that as well.

Alex Goldfarb – Sandler O'Neill

Alex, going back to your real estate tax comments to a prior question, you mentioned the 4.75% now and hoping that goes back down to 3%. Would you say that all of your properties have been marked to market, or are there still some markets where the property taxes haven't been fully marked to where the tax assessors think they should be?

Alex Jessett – Camden Property Trust

The way we operate on the property tax side is we focus a lot on equal and uniform, which is the concept that regardless of what we believe the value to be of that particular asset, it has to be valued in a similar fashion to other comparable assets. When we're looking at our portfolio, what we're really doing is looking at the value the assessors have assigned to our assets as compared to similar assets, and we analyze it that way rather than trying to figure out exactly what the market value of the real estate is.

Alex Goldfarb – Sandler O'Neill

Do you feel that as you did that exercise that everything is valued where it should be on a peer-related basis? Or are there still some areas where you think there are gaps, and therefore that's why it's elevated now, and you're not sure when it could be down to the normal 3%?

Alex Jessett – Camden Property Trust

As compared to our peer group, we think we're appropriately valued.

Alex Goldfarb – Sandler O'Neill

Thank you.

Jeff Pehl – Goldman Sachs

I have a couple of questions on Houston and revenue growth for the quarter. Can you break down the revenue growth for the Midtown assets versus the energy corridor and the suburbs?

Ric Campo – Camden Property Trust

I don't have the detail for those specific assets, but can give you general numbers. The closer you are to the urban core, which is where a lot of development is being delivered, is where you'll find the most challenged markets. If you take the juxtaposition then to the Energy Corridor, there is a lot of supply in the Energy Corridor, a lot of the supply in the urban core. Both of those markets are in the same

situation where you have more supply than demand. Then you go into the suburbs. The high-quality urban core assets are getting hit harder than the suburban B+ assets, primarily because there's just not as much competition between B product and A product. Some B product is starting to be under pressure because of the class A rents coming down, making it more affordable for someone at the top end of the B market to move into an A market at a lower price than they would otherwise have.

Keith Oden – Camden Property Trust

The numbers around Ric's commentary on the downtown and Midtown assets are roughly down 10% to 11% on the urban product, and suburban assets are flat to up 2%. The blend of that gets you to roughly 3.5% down year-to-date in Houston. There's a substantial difference on where the supply impact is happening. If merchant built product is giving two months free rent, you're going to have to respond to that from a pricing standpoint. But those are roughly the range of numbers that we're dealing with.

Jeff Pehl – Goldman Sachs

Thank you.

Drew Babin – Robert W. Baird

I have a quick question on Southern California that may sound like the Washington, DC question from earlier. Speaking about Los Angeles/Orange County, it looks like Camden had a pretty big sequential acceleration in revenue growth. I'm wondering what submarkets are the strongest, which are the weakest, and why Camden's performance seems to look a little different than what some of the other companies are reporting.

Keith Oden – Camden Property Trust

If you look asset by asset across our Southern California portfolio, there's not great variation between the Long Beach market and Los Angeles/Orange County. The strength is across the board. We've got one or two assets that catch more competition from new product coming on line in Irvine. That's always a little headwind for us and our two assets that catch a little of the collateral damage from the supply they bring on line. But outside of that, it's strength across the board. In fact, Southern California represents two of our top five markets with San Diego and Los Angeles/Orange County. Good strength and very limited supply relative to any other market that we operate in and, clearly, a robust economy that's on the rebound.

Drew Babin – Robert W. Baird

That's helpful. Going back to completions for next year, they are going to be down quite a bit in Houston. Are there any other markets in your portfolio where you're seeing a drop off, not as extreme as Houston, but something in that neighborhood?

Keith Oden – Camden Property Trust

I'll give you a couple of the highlights, and the one that you mentioned on Houston is going to be the largest. We've got a significant drop off there. Other markets where we think supply will come down pretty meaningfully are Dallas down by 4,000 completions, Atlanta down by 2,200 apartments, Austin down by 2,300 apartments, Washington, DC down by 3,000 units, and San Diego down by 2,000 units. Those would be the top five or six in terms of a year-over-year decline in completions for 2017 versus 2018.

Drew Babin – Robert W. Baird

Are there any markets where you do see a pickup next year?

Keith Oden – Camden Property Trust

Not a single one. We've got 14 red numbers. I really wanted to mention that earlier when we were talking about Houston on the supply side, we got a very interesting stat this morning from the U.S. Census Bureau that reported the total permits issued in Houston, TX for multifamily apartments for the entire month of June was 90. We've been doing business in Houston for a long time, and I don't ever remember seeing a stat like that. Even in really severe contractions where it was more job-related, we didn't see numbers like that. It's kind of a theoretical concept when you talk about permitting activity and the development pipeline completely shutting down, but it's not just a concept. That's an amazing stat that we got this morning.

Drew Babin – Robert W. Baird

I appreciate it. Thank you.

Rich Hightower – Evercore ISI

Good afternoon. I wanted to touch on a topic that I think has been addressed in past calls, and it relates to the jobs-to-completions ratio. I'm wondering if some of those ratios are changing, given the composition of the workforce and other things going on. Do you have any general comments on markets such as Austin or Dallas, and maybe some others? Have you noticed any changes?

Ric Campo – Camden Property Trust

Over the last 20 years, the rule of thumb was that five jobs create one multifamily housing demand. Lots of groups still look at that ratio. I think you're on to something though, that ratio is sort of broken now. Houston went from 120,000 jobs in 2014, some jobs in 2015, and very limited jobs in 2016. Yet in 2016, we absorbed 15,500 apartment units in Houston. How is that possible when you had no jobs? The housing shortage has been going on for quite a while. What's happening is two things: one is pent-up demand. You still have over one million millennials living at home or in roommate situations because they haven't been able to save enough money to either get out of their home or break the roommate scenario. There's still pent-up demand for multifamily because you have a demographic shift where millennials are more experiential and don't want to buy things. They don't want to be tied down to buying a house. So you delay marriages and childbirth. That has fundamentally changed the demand picture for multifamily vis-à-vis how many jobs you need. The other part of that equation is new product today is more hotel-like. It has more amenities, conference centers, art studios, golf simulation rooms, bars, and many other things. That product did not exist five years ago. Empty nester groups are now saying, "I can move into the urban core and lease an apartment for what I was paying for my big house in the suburbs. I don't have to drive, and I'm closer to amenities and things I want to do." That's driving demand as well. It's the confluence of millennials, pent-up demand and empty nesters moving from suburbs to more urban. There are multiple areas to the urban core. It's not just a specific downtown. Those three factors are changing this whole idea that you need five jobs to create one unit of multifamily demand.

Rich Hightower – Evercore ISI

That's great color. Thanks Ric.

John Pawlowski – Green Street Advisors

Alex, you alluded to the upside in occupancy year-to-date. For July, you're 50 bps ahead of original guidance of 94.9%. What's the current expectation for full-year average occupancy?

Alex Jessett – Camden Property Trust

When we look at the second half of the year, we think that occupancy is going to be fairly consistent to what we saw in the second half of last year. You're looking at around 95.3% occupancy range for the second half of the year. You can blend that with what we have in the first half, and you've got our full-year number.

John Pawlowski – Green Street Advisors

Ok, great. The technology package has been a pretty good success the past couple of years. I'm curious what additional revenue growth initiatives you have in the hopper, and how it's going to impact full-year 2017 and 2018 revenue growth.

Alex Jessett – Camden Property Trust

What we have running through our numbers today is everything you know about, which is our technology package. We still think that equates to 65 basis points of additional revenue for full-year 2017. We have lots of talented people, and we're always looking for new initiatives. When we have something that we're ready to announce, we'll certainly let everyone know about it.

John Pawlowski – Green Street Advisors

Great. Thanks. –

Wes Golladay – RBC Capital Markets

Looking at the Camden Buckhead Square acquisition, how are you looking at supply impact and results of the property next year? It looks like Buckhead will have a decline in supply, but midtown and downtown, a bit of an uptick. Do think that will impact the results?

Keith Oden – Camden Property Trust

We continue to see new supply in Atlanta. The Buckhead submarket is reasonably well-contained in the sense that if that's your first choice, you may migrate over to Uptown. But more than likely if you're a Buckhead person, that's where you're going to want to lease. On most of the 2,000-2,500 apartments that were started, this was the very tail end of it. The next thing to come on line in Buckhead is likely to be an extension of our Camden Paces community. It's very difficult to manufacture sites in the Buckhead area. Land costs are going to continue to increase. I think we're pretty well-insulated in Buckhead. We feel pretty comfortable that when we get into next year and there's really no new supply coming on line, we should see a decent bounce-back, not just of the 3% or 4% variety in Buckhead because you've got depressed rents. We know from history that when you have a supply issue in an otherwise healthy economy, the rents tend to go back to prior peak rather quickly once the supply problem goes away. You're not resetting rents then trying to grow rents at 3% from the bottom, which is a supply-impaired number. You're going to get back to what the average person is willing to pay to live in that submarket once the supply clears.

Wes Golladay – RBC Capital Markets

When you look at your supply number, you said it's going to be down next year for your markets. Is that at the submarket level or just the broader market?

Keith Oden – Camden Property Trust

When we forecast revenue, we do a complete bottom-up, which includes all new supply that would impact any of our communities in that submarket. We look at it in both ways. It's instructive, though, to think directionally about the market producing fewer units. Ultimately, it's how many of those completions are going to happen adjacent to or be impactful to the community that you operate in.

Wes Golladay – RBC Capital Markets

Thank you.

Karin Ford – MUFG Securities

Good afternoon. I wanted to ask about the downtown Houston development start. It's a fairly large deal at $125 million. Can you give us your latest thoughts on where you'd like to have your capital allocation to Houston in light of that? Would you consider a JV on that deal or selling some assets in Houston? Where do you want Houston to be as part of the portfolio?

Ric Campo – Camden Property Trust

We would not consider a joint venture as we are very anti-joint venture. We have one of the cleanest balance sheets in the multifamily sector. We have one joint venture with Texas Teachers, but it's a blind pool unilateral decision making process with Camden only. We like Houston long-term. It's a dynamic market that's going through a weak period right now because of supply. It weathered the energy storm very well relative to historic energy downturns in the past. 10.5% of our NOI comes from Houston. If we did nothing else, the downtown project would take it up to about 11.25% by 2020. It is a large project, and it will be one of our premier assets. It's a high-rise with 21 stories. We're moving more towards concrete construction because it holds up better long-term versus stick. When you think about where we want to be portfolio-wise, I like where we are in Houston because I like the market long-term. Will we continue to recycle capital the way we have in the past? Absolutely. We will continue to look at our portfolio on an ongoing basis and decide which assets produce slower growth, and then reinvest that capital into higher-growth, higher-quality assets. When we think about this $125 million investment in the context of Camden, it's not that huge relative to our portfolio. But will we sell

other assets to fund it? Perhaps. Capital recycling is not something that you just do and stop. It's something that you have to do all the time. If you go back to our history, I think we only own two or three of our original IPO assets. We've recycled billions of dollars, and we'll continue to do that.

Karin Ford – MUFG Securities

Great. Thanks for the color.

Dennis McGill – Zelman & Associates

I know we're running over, so I'll try to be quick here. First question has to do with the balance sheet. If you were to underwrite a scenario similar to today for the next 18 months or so, and see some opportunities to take advantage of the acquisitions as you said, where would you be comfortable taking leverage in that scenario to accomplish that?

Alex Jessett – Camden Property Trust

If you think about where we are today, we have the absolute strongest balance sheet in the multifamily space, with Debt-to-EBITDA at 4.5 times. Are we comfortable increasing that a bit? The answer is yes, but probably not much more than a 5.0 times ratio.

Dennis McGill – Zelman & Associates

Perfect. On the ancillary income side, I think in the front half of the year all the ancillary income was about 100 basis points. How much of that was the technology side?

Alex Jessett – Camden Property Trust

Yes, it was almost entirely technology. If you look at the first half of the year, the technology impact was about 90 basis points.

Dennis McGill – Zelman & Associates

Ok. So that's going to roughly 30 basis points in the back half?

Alex Jessett – Camden Property Trust

That's correct.

Dennis McGill – Zelman & Associates

Ok. One last question on supply. I think you said 150,000 completions in 2017 across your markets. How much of that is still yet to come in the second half of the year?

Keith Oden – Camden Property Trust

Of the total 150,000 completions, it's pretty evenly split in 2017, with about 76,000 in the first half and roughly 74,000 in the second half.

Dennis McGill – Zelman & Associates

Thank you. I appreciate it.

John Pawlowski – Green Street Advisors

Just one follow-up to the Houston development question. Correct me if I'm wrong, but didn't the scope of that project increase $100 million this quarter? What increased it? If I'm looking at the development pipeline, Camden Conte last quarter was $170 million, and now Camden Downtown is the new name split into two phases. The aggregate cost is $270 million.

Ric Campo – Camden Property Trust

That's a good question. Camden Conte was in a holding pattern, and we were deciding whether to build a midrise stick product or a high-rise. The variation we decided on was a 21-story high-rise, which is roughly $125 million. The jury is still out on what to with the second phase. I think we put it in a holding pattern and assumed it will be a twin tower, and that's why the cost went up. From when we originally priced these projects, costs continue to go up in Houston. We were expecting costs to come down with the energy situation. The multifamily market has started to decline dramatically, but we have not seen costs come down at all. The challenge in Houston is that there's a lot of petrochemical construction, a lot of schools, the medical center, and we haven't seen costs come down. Product type is also changing.

Alex Jessett – Camden Property Trust

We also added an escalation factor to the second phase of Camden Downtown. That's why you're seeing a higher number for the second phase because it will be started several years later.

John Pawlowski – Green Street Advisors

Ok. But the best guess on aggregate outlay for the two sites is $270 million right now?

Alex Jessett – Camden Property Trust

That's correct.

Keith Oden – Camden Property Trust

Yes. Assuming we build the second phase as a comparable tower, 21-story high-rise product that phase one is. That decision is way down the road.

John Pawlowski – Green Street Advisors

Thank you.

Ric Campo – Camden Property Trust

We appreciate the call and we'll visit with you in the upcoming conference season after Labor Day. Thanks.