Fourth Quarter 2017 Earnings Call

February 2, 2018 - 10:00 AM CT

Kim Callahan – Camden Property Trust

Good morning, and thank you for joining Camden's fourth 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 fourth quarter 2017 earnings release is available in the Investors section of our website at camdenliving.com, and it includes reconciliations to non-GAAP financial measures which will be discussed on this call.

Joining me today are Ric Campo, Camden's Chairman and Chief Executive Officer; Keith Oden, President; and Alex Jessett, Chief Financial Officer. We will be brief in our prepared remarks and try to complete the call within one hour. We ask that you limit your questions to two, 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

Good morning. By now you understand today is Groundhog Day. This day always reminds me of the classic Bill Murray movie in which he relives Groundhog Day over and over and over again. For the thousands of our Houston area neighbors whose homes were flooded by Hurricane Harvey and have not yet moved back into their homes, every day feels like Groundhog Day. Much progress has been made and yet so much work remains to be done in Houston. Fortunately for 98% of the people that live

in the areas that were not flooded, life returned to normal within a few days of the flood. All of Camden's communities are as good as new, including Camden Spring Creek, which had homes flooded. The recent uptick in oil prices and the Astros' great win in the World Series have lifted Houston's spirits and economic activity. Hurricane Harvey's initial positive impact on the multifamily business has carried over into 2018, as Keith will share with you in his market-by-market report card. Houston's rating improved from a D and declining last year to a B and improving this year. It's amazing what a year will do to a market rating sometimes. I want to thank our Camden team members who stepped up and showed what neighbors helping neighbors really meant for the Hurricanes Harvey and Irma relief efforts that we did as a company.

2018 will mark Camden's 25th year as a public company. We started in three Texas cities and are now in 15 diversified, growing markets throughout the country. We began providing 6,000 homes to customers and now provide 56,000 homes, improving the lives of our customers one experience at a time. We began with a $194 million market cap and have grown to over $11 billion, providing shareholders with solid returns, growing dividends, and increasing stock prices. In the beginning, the multifamily industry was a slow adapter to technology. Today, we embrace cutting-edge technologies to help our employees perform better and to take care of our customers. We've also provided customers with cutting-edge technologies that they really appreciate. And more importantly, we started out with a workforce of about 250 people and now provide jobs to nearly 2,000 full-time employees and 5,000 construction workers, creating an amazing customer and shareholder-focused culture that has been recognized for 10 consecutive years on FORTUNE Magazine's "100 Best Companies to Work For" list, with six top 10 finishes. We look forward to the next 25 years and embrace the opportunity to continue improving the lives of our employees, customers, and shareholders one experience at a time.

I'll turn the call over to Keith for his market-to-market update.

Keith Oden – Camden Property Trust

Thanks Ric. Consistent with prior years, I'm going to use my time on today's call to review the market conditions we expect to encounter in Camden's markets during 2018. I will address the markets in the order of best to worst by assigning a letter grade to each one, as well as our view on whether we believe that market is likely to be improving, stable, or declining in the year ahead. Following the market overview, I'll provide additional details on our fourth quarter 2017 operations and 2018 same property guidance.

We anticipate same property revenue growth will be between 2%-5% this year in the majority of our markets, with a weighted average growth rate of 3% at the midpoint of our guidance range. The markets budgeted in the 2%-5% growth range represent nearly 90% of our same property pool, and 11 of our 13 markets received a letter grade of B or higher this year.

Our top ranking for 2018 goes to Southern California, which we rate an A with a stable outlook. Our Southern California portfolio has been a strong performer, averaging 5.5% annual same property revenue growth over the last three years. Approximately 25,000 new apartments are expected to open this year, with 120,000 new jobs created, putting the jobs-to-completions ratio at a manageable level of 4.8 times.

Denver also earned an A rating, but with a declining outlook. Denver has been one of our top markets for the past several years, and we expect another strong year in 2018. Approximately 40,000 new jobs are expected during 2018, and supply will remain elevated with 13,000 new units scheduled for delivery this year, likely tempering the pace of revenue growth from the 5.3% level achieved last year.

Raleigh, Orlando, and Phoenix each get an A- rating with stable outlooks. All of these markets face healthy operating conditions with balanced supply and demand metrics. In Raleigh, new development has been coming on-line steadily over the past few years with 5,000-6,000 new units delivered each year. Job growth has also been stable, and 22,000 new jobs are projected for 2018. Orlando is expected to have over 40,000 new jobs in 2018 with around 7,000 completions, and estimates in Phoenix call for nearly 50,000 jobs with 9,500 new units coming on-line this year.

Up next are Atlanta and Tampa, both receiving B+ ratings with stable outlooks. Job growth has been strong in Atlanta, and 55,000 new jobs are projected for 2018. Completions also remain steady with another 11,000-12,000 new apartments scheduled for delivery this year. In Tampa, supply and demand metrics for 2018 look very similar to 2017, with 30,000 new jobs and 5,500 or so new apartments being completed.

Jumping up five spots in the rankings this year is Houston, which improved from a rating of D and declining in 2017 to a B and improving this year. After back-to-back years with negative same property results, our Houston portfolio is expected to achieve 3% revenue growth for 2018. Job growth went from under 20,000 in 2016 to around 50,000 last year, and is projected at 80,000 for 2018. New

supply has been heavy, with an average of 20,000 new units delivered annually for the past few years. 2018 should bring a significant drop-off in supply, with less than 7,000 completions expected this year.

Washington DC receives a B rating again this year, with a stable outlook. Revenue growth for our Washington, DC portfolio averaged less than 1% from 2014-2016, then rebounded to 3.2% last year. We expect 2018 to look a lot like 2017 with regards to same property growth. Supply and demand metrics should also remain consistent with completions in the 10,000-12,000 range and 40,000 new jobs projected in 2018.

Dallas earned a B as well, but with a declining outlook given the continued wave of new supply being delivered in that market. Job growth has been solid, with nearly 70,000 jobs created last year and a similar amount expected during 2018. But with over 20,000 completions last year and another 20,000 units coming on-line this year, the Dallas apartment market will remain challenging in 2018 and our pricing power may be limited.

We give Austin a B rating with a declining outlook this year. The level of new supply in the Austin market should finally start to come down in 2018 but only slightly, with 8,000 new units anticipated this year versus 9,000 last year. Job growth was mediocre in 2017 with around 30,000 new jobs created, and estimates call for an even weaker year in 2018 with employment growth of 22,000. Given the current supply and demand metrics, our 2018 outlook for Austin is below average, with revenue growth of 1%-2% expected for our portfolio this year.

Conditions in Charlotte seemed to have firmed a bit, and are currently a B- with an improving outlook. New supply has been persistent in Charlotte with 6,000-7,000 units delivered in both 2016 and 2017, and a similar amount anticipated this year. Job growth should accelerate in 2018 with over 30,000 new jobs projected, so we expect our portfolio's revenue growth will be slightly higher than the 1.9% we achieved last year.

Our last market, South Florida, would currently rank as a C+ with a stable outlook. We began to see weakness in our South Florida portfolio during 2017 and the economic outlook for 2018 calls for deceleration in job growth this year. Deliveries of new apartment units should remain steady, but our communities will continue to compete with additional supply from for-sale and rental condominiums. As a result, we expect limited revenue growth for our South Florida portfolio this year, with a range of 1%-2%.

Overall, our portfolio rating is a B+ this year, up slightly from last year's B rating primarily due to improvement seen recently in Houston after Hurricane Harvey. As I mentioned earlier, the majority of our markets should achieve 2%-5% revenue growth this year with the outliers being South Florida and Austin in the 1%-2% range. As a result, we expect our 2018 total portfolio same property revenue growth to be 3.0% at the midpoint of our guidance range. This compares to our actual revenue growth last year of 2.9%, with year-over-year improvement driven primarily by Houston.

Now a few details on our 2017 operating results. Same property revenue growth was 3.0% for the fourth quarter and 2.9% for full-year 2017. We saw strong performance during 4Q17 with most of our markets recording 3%-6% revenue growth. Our top performers for the quarter were Tampa at 5.6%, Orlando at 5.4%, Raleigh at 4.6%, and Atlanta, Phoenix, and San Diego/Inland Empire each at 4.4%.

Rental rate trends for the fourth quarter were as expected with new leases down 0.1% and renewals up 4.9%, for a blended rate of 2.3% growth, and our preliminary January results are in a similar range. February and March renewals are being sent out at just over 5%. Occupancy averaged 95.7% during the fourth quarter, compared to 94.8% last year. January occupancy has averaged 95.4% compared to 94.7% in January 2017. Annual net turnover for 2017 was 200 basis points lower than 2016 at 46% versus 48%. Moveouts to purchase homes were 15.8% in the fourth quarter of 2017 and 15.2% for the year, down slightly from 2016 levels.

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

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 fourth quarter we reached stabilization at Camden Lincoln Station, a $56 million development in Denver, and began construction on Camden Downtown I, a $132 million development in downtown Houston. Additionally, late in the quarter we completed the $78 million disposition of our only student-housing community, Camden Miramar, located in Corpus Christi, TX. We built and owned Camden Miramar since 1994, and over the past 23 years this was a very successful investment for Camden and our shareholders generating a 16.5% unleveraged internal rate of return. We made the strategic decision to sell this asset given its age, use, and its location on a ground lease with just over 20 years remaining. At the sales price, this disposition represents an AFFO yield of 8.5% and an FFO yield of 10.5%. This disposition FFO yield was driven in large part by the short remaining duration of the ground lease and the capital intensive nature of the asset due to its age, use, and location directly on

the Gulf Coast. Subsequent to quarter-end we purchased Camden Pier District in St. Petersburg, FL, for approximately $127 million. This newly constructed, 358-unit 18-story concrete building was purchased at a year one yield of just under 5%.

We ended the quarter with no balances outstanding on our unsecured line of credit, $370 million cash-on-hand, and no debt maturing until October 2018. Our current cash balance after purchasing Camden Pier District, the January 2018 payment of our fourth quarter dividend, and the payment of property taxes which are disproportionately due in January, is approximately $160 million.

Moving on to financial results. Last night we reported funds from operations for the fourth quarter of 2017 of $114.6 million, or $1.18 per share, in line with the midpoint of our prior guidance range of $1.16 to $1.20 per share. Contained within the $1.18 per share of FFO was:

- Approximately $0.005 in higher same store insurance expense as a result of estimated freeze damages at our Georgia, North Carolina, and DC area communities offset by approximately $0.005 in higher non-same store net operating income driven by the slightly delayed sale of our Camden Miramar student housing community. This sale occurred on December, 12, 2017 as compared to our forecast for December 1, 2017.

Moving on to 2018 earnings guidance. You can refer to page 26 of our fourth quarter supplemental package for details on the key assumptions driving our 2018 financial outlook. We expect our 2018 FFO per diluted share to be in the range of $4.62 to $4.82, with the midpoint of $4.72 representing a $0.19 per share increase from our 2017 results. The major assumptions and components of this $0.19 per share increase in FFO at the midpoint of our guidance range are as follows:

- An approximate $0.13 per share increase in FFO related to the performance of our 41,968-unit same store portfolio. We are expecting same store net operating income growth of 1.5% to 3.5%, driven by revenue growth of 2.5% to 3.5% and expense growth of 3.5% to 4.5%. Each 1% increase in same store NOI is approximately $0.05 per share in FFO.
- An approximate $0.15 per share increase in FFO related to net operating income from our non-same store properties, resulting primarily from the incremental contribution from our development communities in lease-up during 2017 and 2018, the four development communities which stabilized in 2017, and our one stabilized acquisition completed in June 2017,
- An approximate $0.06 per share increase in FFO related to the net operating income from our January 2018 acquisition of Camden Pier District,

- An approximate $0.08 per share increase in FFO due to an assumed additional $380 million of proforma acquisitions spread throughout the year at an assumed year one yield of 4.5%, and
- An approximate $0.05 per share increase in FFO due to the non-recurring nature of our 2017 hurricane-related charges.

This $0.47 cumulative increase in FFO per share is partially offset by:

- An approximate $0.16 per share reduction in FFO resulting from the additional shares outstanding as a result of our September 2017 equity offering,
- An approximate $0.08 per share decrease in FFO related to lost NOI from the disposition of our Camden Miramar community,
- An approximate $0.04 per share decrease in FFO resulting from the combination of lower third party construction fees, lower interest income resulting from lower cash balances, and higher corporate depreciation and amortization due to the implementation of a new back-office system expected to come on-line in the third quarter.

We are anticipating overhead expenses to be flat in 2018 resulting from a combination of general cost control measures and the impact of a construction-related settlement in which we will receive a reimbursement of legal fees expensed in prior periods. We are also anticipating interest expense to be flat in 2018 as the repayment of debt in 2017 is offset by 2018 higher borrowings under our unsecured line of credit combined with lower amounts of capitalized interest resulting from the construction completion of three developments in 2017 and three developments in 2018. The interest rate for our line of credit floats at LIBOR plus 85 basis points, and we anticipate draws under our line of credit beginning in June. Additionally, we anticipate repaying at maturity $175 million of secured floating rate debt with an anticipated interest rate of 2.3% in the second half of the year, and we anticipate repaying at par $205 million of secured fixed rate debt with an interest rate of approximately 5.7% late in 2018. 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 an all-in rate of approximately 3.75%. In anticipation of this offering we have entered into $200 million of forward-starting swaps partially locking in the 10-year treasury at 2.34%.

Our same store expense growth range of 3.5% to 4.5% for 2018 is primarily due to increases in salaries and benefits, and taxes. Salaries and benefits represent 20% of our total operating expenses and are anticipated to increase by 6.5%. This increase is the result of two factors. First, our benefit-related

expenses in 2017 were unusually low creating a tough comparison. In 2017 we experienced unusually low amounts of self-insured health care expenses, resulting in our 2017 increase in salaries and benefits to be less than 1%. I have discussed this trend on past calls and said at the time that I did not believe this trend could continue. And second, we are being responsive to the effects of general labor tightening and are making market-driven wage adjustments where appropriate. The two-year average increase in salaries and benefits, averaging 2017 and 2018, is 3.7%.

Property taxes represent 1/3 of our total operating expenses, and are projected to be up just over 4% in 2018. 3.5% of the expected growth is core, the result of anticipated increases in assessments for our properties. The remaining increase is due to a year-over-year reduction in anticipated refunds from prior year tax protests. We had success in 2017 with our prior year tax protests and current year appeals. As a result, 2017's full-year property tax expense increased by 4.1% as compared to our original budget of 5.5%. Although we do anticipate further tax refunds in 2018, we do not anticipate reaching the levels received in 2017. Excluding salaries and benefits and taxes, the remainder of our property-level expenses is anticipated to increase at less than 3% in the aggregate.

Page 26 of our supplemental package also details other assumptions I have not previously mentioned. We are anticipating at the midpoint $100 million in dispositions late in the year with no significant impact to our guidance, and we are anticipating $100 to $300 million of on-balance sheet development starts spread throughout the year.

Last night we also provided earnings guidance for the first quarter of 2018. We expect FFO per share for the first quarter to be within the range of $1.11 to $1.15. The midpoint of $1.13 represents a $0.05 per share decrease from the fourth quarter of 2017 which is primarily the result of:

- An approximate $0.035 decrease in sequential same store net operating income. Of this amount, $0.02 is due to sequential increases in property taxes resulting from both higher fourth quarter 2017 tax refunds and the reset of our annual property tax accrual on January 1 of each year. The remaining $0.015 of the sequential decrease in same store NOI is due to other expense increases primarily attributable to typical seasonal trends including the timing of on-site salary increases. These increases in same store operating expense are partially offset by a slight increase in same store operating revenues.

- An approximate $0.025 per share decrease in FFO due to the disposition of our previously mentioned student housing community. As a reminder, occupancy and NOI at this community were strong during the school term, but declined significantly during the summer months, and
- An approximate $0.01 per share decrease in FFO due to a combination of lower third party construction fees and lower interest income resulting from lower cash balances.

This $0.07 aggregate decrease in FFO per share is anticipated to be partially offset by:

- An approximate $0.015 per share increase in acquisition NOI, and
- An approximate $0.005 decrease in combined overhead expenses resulting from the previously mentioned reimbursement of legal fees expensed in prior periods partially offset by the normal beginning of year compensation increases and the timing of certain corporate events.

And finally, our balance sheet is strong with net debt-to-EBITDA at 3.5 times, a fixed charge expense coverage ratio at 5.5 times, secured debt to gross real estate assets at 11%, 80% of our assets unencumbered, and 92% of our debt at fixed rates. We have $736 million of development currently under construction or in lease-up, with $280 million left to fund.

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

Nick Joseph – Citigroup

Starting with Houston, what are the underlying assumptions for 3% revenue growth in terms of new leases and renewal pricing and occupancy? How dependent are you on the 80,000 job growth assumption coming into the year with such high occupancy?

Keith Oden – Camden Property Trust

We're still running at 97% occupancy in Houston. We do expect that to moderate over the course of the year, closer to what is normal for Houston in the 94%-95% range. We do believe it will come down over time as people who were displaced from their homes, and are still in a rental apartment slog through the long process of getting their primary residence back in order. One of things we talked about on our last call was that we were very cautious in terms of giving people guidance if they were inquiring about very short-term lease terms. We felt like the magnitude of this event was going to be such that 3 months was not doable in most cases, and that's turned out to be true. What we're going to actually see is, what we thought was not 3 months but probably 6 months, in many cases is going to

turn into 9 months or a year, unfortunately, for a lot of people. We've tried to anticipate when that shift will happen, but we're in pretty uncharted waters in terms of a market the size of Houston with the degree of impact and displacement we've seen. We did our best to try and put a fence around it, so we think we'll trend back down closer to 94.5% to 95%.

In terms of overall new leases and renewals, we're basically flat on new leases, and renewals are somewhere around 4% for Houston, so that's 2%. We think we'll stay somewhere in that range throughout the year. Our guesstimate for Houston same store revenue growth next year is in the 3% range for the full year. That's where we think we're going to end up. It was one of the more challenging revenue forecasting tasks that our teams have ever been faced with, trying to anticipate all the moving parts.

As far as dependency on 80,000 jobs, we're probably less exposed to the variability in that number than we have been in the past, primarily because we've got a lot of the overhang, and supply has been taken care of currently. We think some of that is going to unwind over time. The good news for Houston is that in 2018 we expect to see only about 7,000 apartments completed and delivered, and that compares to roughly 20,000-22,000 completions in each of the last three years. So a lot of relief on the supply front, a lot more optimism about the 80,000 jobs. The forecasts we've seen were before the most recent uptick in the price of oil. There seems to be a lot more vibrancy and optimism in the Houston economy. Overall, we've got a good plan for Houston in 2018.

Nick Joseph – Citigroup

What was the final impact of the tech package rollout on 2017 same store revenue expense and NOI, and what is assumed in 2018?

Alex Jessett – Camden Property Trust

For 2017, revenue was about 65 basis points, expenses around 130 basis points and NOI around 20 basis points. For 2018, revenue is around 10 basis points, expenses are actually a positive 20 basis points because we've redone some of our contracts, and that gets us to an NOI positive of about 20 basis points.

Nick Joseph – Citigroup

Thanks.

Juan Sanabria – Bank of America/Merrill Lynch

Could you talk about the acquisition environment and the pipeline you have today? I think you said you expect acquisitions to be evenly spread out. Any color on what you're seeing? You raised equity in the fall and have been slow to allocate that. What are you seeing in terms of pricing, and what markets are you looking at?

Ric Campo – Camden Property Trust

The acquisition market continues to be very competitive. We were at NMHC in Orlando, and it was the biggest meeting they'd ever had. When I was Chairman of NMHC, I think there were around 2,600 people, and there were 5,800 people in Orlando in the multifamily space. There's still a wall of capital being invested in multifamily that is significant. The interesting part, however, is in the last year or so because of slowing rent growth and NOI around the country in most markets, capital has been focused on value-add, the idea of buying an older property and fixing it up, and creating that value-add proposition. It's been value-add-driven primarily because of lower cap rates on core. Slowing growth rates on core has been tough for people to hit their unlevered IRR numbers. I think you're going to have a continued competitive environment this year.

We have looked at many properties. The challenge we have is that we’re not going to acquire properties just because we have capital. We want to make sure they fit into our strategy, which is buying below replacement cost in lease-up scenarios like Camden Pier District in St. Petersburg and Camden Buckhead Square in Atlanta. We bought them at below replacement cost, and they came in at a lower yield because there are generally embedded concessions when it’s not fully leased up yet. Once we finish lease-up, start burning concessions off, and implement Camden’s customer focus, we move those lower cap rates up to where we're more comfortable. I think what's happening now is that people are positioning in terms of sale assets, and investors are queuing up to see what happens to the sale market. We think there's going to be probably 15% to 20% more assets in the market this year to sell than there was last year, given where we are in the cycle. We'll get our fair share. The markets we want to be in are markets where we're underrepresented and where we think long-term the growth prospects for the regions are good. Most of our markets fit into that category. We're really agnostic about where we buy within our markets as long as we can hit that sweet spot of below replacement cost, lease-up, and then driving the yields up higher over the next 12 to 24 months.

Juan Sanabria – Bank of America/Merrill Lynch

Could you talk about the kind of trajectory you expect for same store revenue across Dallas and Atlanta, and what you're seeing on new leases recently in those two markets as well?

Keith Oden – Camden Property Trust

We rated Dallas a B and declining, and that's strictly a result of the new supply that's going to be delivered this year. We're going to see another really strong year of employment growth, but there are too many apartments that need to be absorbed. Revenue growth in Dallas was 4.4% for 2017, and we'll be around 3% this year, so overall a good year. We think it's decelerating from the strength that we've seen in the last two years. We rated Atlanta as a B+ and stable. Revenue growth in Atlanta was almost 5% for the full year, and we've got that between 3%-3.5% for 2018. So again, a solid good year and a little bit of bias towards too many apartments relative to the 5:1 ratio long-term, but still okay in terms of the overall results in both of those markets.

Juan Sanabria – Bank of America/Merrill Lynch

Thank you.

Austin Wurschmidt – Keybanc Capital Markets

How are you thinking about returns today, given the recent move in the base rate? You also mentioned being focused on markets you're underrepresented. Can you share what markets those are?

Ric Campo – Camden Property Trust

We have high concentrations in Washington, DC and Houston. But if you look at markets like Tampa or Orlando, 4% or 5% of our NOI comes from those markets. We're underrepresented in Phoenix. We try to fill in where we have less market exposure. The first part of your question, I think people make a mistake when they think the 10-year treasury is what drives cap rates. The 10-year treasury is probably the fourth most important thing that drives cap rates; it's not #1. A lot of people are funding with floating rate debt anyway, so they don't even think about the 10-year treasury, and the curve is flattening, which is increasing the cost of floating rate debt. Cap rates remain very sticky, and the reason is because the number one driver of price on any asset is liquidity in the marketplace that is able to fund that acquisition. Today, the market is very deep in liquidity. There are many financial institutions who want to issue loans on apartments, Freddie Mac and Fannie Mae, including life companies, which are actually cheaper on the financing side than Freddie and Fannie. There is a wall

of equity capital that continues to need to make investments, so it's liquidity in the marketplace.

The next thing that drives cap rates is supply and demand fundamentals. We’re eight years into the recovery cycle and you still have reasonable supply and demand economics where you don't have all markets trending negative and are not in a recessionary environment. Supply and demand looks reasonably good. If you look to 2019 and 2020 many people believe there will be a reduction in new development because of pressure on land prices and costs. There’s hope that supply is going down over the next few years, and demand continues to look really good for Millennials. When you look at every cohort group, whether it’s Millennials or Baby Boomers, there is an increase in propensity to rent apartments across the board. As a matter of fact, the increase in demand from people 55 and older for market rate apartments is about the same as for millennials in terms of market share. Millennials have a very high propensity to rent. People 55 and older have a lower propensity, but there's a lot of them. If you have an uptick in capture rate for those, which we've been having for the last 10 or 15 years, having an increase in propensity to rent for those people gives you a nice increase in demand that you can look forward to for the next three of four years, so supply and demand are good.

The next big issue is inflation, which drives cap rates. What’s driving the 10-year treasury today is incredibly low unemployment and wage pressure, which we're all feeling. People don’t think it’s deflationary; maybe they’re thinking we’re getting back to an inflationary environment, which supports short-term leases and the ability to raise rents on those short-term leases. Then you've got the 10-year treasury, which is the last piece of the equation. The 10-year treasury today is still very low relative to long-term interest rates. I don't think pricing is going to change at all. If anything, it's going to be more competitive because when you start putting the inflation equation on the table for investors, maybe they go to an inflation-protected asset like multifamily. All that said I don't see cap rates moving much given the 10-year treasury. It's going to be a competitive environment unless something dramatically changes on the supply and demand side, or something that we don't know is out there from an economic shock perspective.

Austin Wurschmidt – Keybanc Capital Markets

I appreciate the detailed response. Given the liquidity in the market today, the fact that we're through the wall of CMBS maturities, do you think there's a potential for more portfolio deals this year? Is that something you'd be interested in?

Ric Campo – Camden Property Trust

We're interested in portfolio deals and one-offs. The challenge you have with portfolio deals is that you have to buy the whole thing, and oftentimes you have to choose whether you want everything, and sometimes that's not ideal. We're looking at all activities. There's definitely going to be an increase in sales this year because when you think about the merchant builder model, which is how properties get built, merchant builders are having trouble reloading their balance sheets because they're holding assets longer than they usually do. They took longer to build and you've had feathering in of the inventory, which has been good on the market side because you haven't flooded the market as fast as it could have been given the delay in construction that everyone has had across the country due to a lack of labor. With that said, merchant builders are full. In order for them to reload and do their next few deals, they have to sell. You also have the equity side of that equation that is in play. Funds have had equity in deals and they are now unwinding with other properties. They don't want to hold assets too long because their levered IRRs start going down the longer they hold, assuming that prices are not dramatically going up. I think that's driving the market to more sales, probably more portfolio sales, and we're going to look at it all.

Austin Wurschmidt – Keybanc Capital Markets

Thank you.

John Kim – BMO Capital Markets

Your average monthly rental rate increased this quarter sequentially, and it goes against the grain of all your peers. Can you explain this dynamic? Did you purposely focus on pushing rates versus occupancy?

Keith Oden – Camden Property Trust

The biggest change in our portfolio was in Houston from third to fourth quarter. We were still thinking Houston could be down 4% for the year on rental revenues. We had a reversal of that in the third quarter and a pretty decent sequential increase in Houston, and it's 12% of our footprint. It's always enough to move the needle when we get that kind of a shift. Other than normal seasonality in our portfolio in some of our markets like Phoenix that do benefit from the fourth quarter generally over the third, Houston is the only market with that kind of shift. Everything else is what you would typically see in our portfolio with the exception of Houston, and that was a big shift.

John Kim – BMO Capital Markets

It seems like it was pretty strong across the board, but you're basically saying it didn't change anything as far as the rate versus occupancy trade this quarter?

Keith Oden – Camden Property Trust

No, we did not. Again, look at occupancy rates across the board in our platform. We normally try to operate somewhere around 95% occupied, and most of our markets are operating north of that. In that environment, from a revenue management standpoint, the model is still going to want to push rents.

John Kim – BMO Capital Markets

The second question is on redevelopment guidance, which seemed like it was new this year of about $30 million. Can you remind us how this compares to 2017, because it's not on your capex schedule?

Alex Jessett – Camden Property Trust

Redevelopments are new. In the past, we've done repositions. Redevelopment is a new concept introduced in 2018. What we're going to do is combine a traditional reposition program with extensive exterior upgrades. We are taking assets that will be redeveloped out of same store, and we currently have three assets that are in that bucket, two in South Florida and one in Arlington, VA. Total spend for those in 2018 is going to be around $25 million to $30 million.

John Kim – BMO Capital Markets

So redevelopments are taken out of the same store pool, but repositions and revenue enhancing are kept in same store?

Alex Jessett – Camden Property Trust

That's correct.

John Kim – BMO Capital Markets

Thank you.

Alex Goldfarb – Sandler O'Neill

Going back to Houston, were you saying that you expected Houston to end at 94% versus 97% now? And second, when do you think we'll see a return of development in Houston given the dramatic drop-

off that we've had north of 60%? How long before people start putting 2x4s in the ground again and we get supply coming back?

Keith Oden – Camden Property Trust

I think I said 94%-95%. I wasn't trying to be specific on that other than just say back to a more normal situation. 97.5% occupied is not normal for Houston. It's not normal for any of our markets. I'd expect to get back to normal, but in so doing, at some point we'll be bleeding off 250 basis points of occupancy, which I expect to happen over the course of 2018. In terms of new construction, you have people who just got bailed out, in some cases, of their last round of new development by the Hurricane Harvey effect. There's always conversation about potential new starts, but the reality of restarting a development pipeline to have a meaningful impact in 2019 and 2020 is not likely to happen given how long it takes to get through the planning and permitting process even in Houston. We started Camden Downtown I in the fourth quarter of 2017, but we bought that land years ago. It's been part of our legacy land portfolio, and we did that opportunistically. 7,000 completions are estimated for 2018 and about 5,000 are projected for 2019 in the entire Houston metropolitan area, which is an extraordinarily low number. Camden Downtown I is a type 1 high-rise construction, and we won't be delivering units until late 2019 or early 2020.

Ric Campo – Camden Property Trust

I was at an Urban Land Institute event this week in Houston, where engineers are working on the city's new response to detention, mitigation, and raising the elevations of new construction. There's a major move that could significantly negatively impact the ability of people to build as a result of these new rules. These new rules are actually coming into play. Harris County put in new rules recently, and it makes building more expensive, takes up more land, requires more infill dirt. The cost side of the equation is being driven up by new post-Hurricane Harvey regulations. It's classic government, though, to a certain extent because they're pushing new developers to spend a lot more money and making it more difficult, which is good for the incumbents. The city has a very restrictive program that requires developers to go above the 500-year floodplain by about 12 inches. All those things are impediments that heretofore were never really impediments in Houston. So you have more regulation that's going to constrain people. The other thing is lenders are not rushing back into Houston to make loans at this point. There's a lot of wait-and-see. The equity and debt capital are not blasting in there saying, let's go build. You still have pockets in the city that didn't flood, and a fair amount of concessions still going on in those lease-ups.

Alex Goldfarb – Sandler O'Neill

My second question is on Orlando, which seems to be benefiting from the Caribbean influx per Axiometrics. Can you give a little more detail on what you expect for Orlando? Your occupancy there is at 97%. And what is the supply picture as we look out into 2018?

Keith Oden – Camden Property Trust

We rated Orlando as an A- and stable, and expect it to be one of our best performers this year. We're probably in the 3.5%-4% on top-line revenue growth, which is down from last year. Last year it was in the top third in our entire portfolio. It is true that there has been a significant influx of people from Puerto Rico. We've done a lot of homework on this, and it is true that the place of destination for a lot of the people from Puerto Rico is Orlando. They're going to get the normal job growth that we would have seen in Orlando, but we're also going to see a big influx of other potential residents. We have Orlando as the fourth best market in our portfolio this year, so we're looking for another really strong year there.

Ric Campo – Camden Property Trust

To give you a sense of this Puerto Rican connection, the #1 city in America with Puerto Rican heritage is New York City. #2 is Orlando. We're getting at least 5 to 10 Puerto Rican effects in our properties there. It's sort of anecdotal, but as long as Puerto Rico continues to be challenged, more people are flowing out.

Alex Goldfarb – Sandler O'Neill

Thank you.

Rob Stevenson – Janney Montgomery Scott

What's the expected stabilized yield on the current development pipeline, and what have you been achieving on the development that's completed and/or stabilized in the last year or so?

Ric Campo – Camden Property Trust

Our overall portfolio yield is around 6.25%-6.50%. The high-rises are lower and the mid-rises are higher. The trend on development yields is down, unfortunately, because you're later in the cycle and costs are higher and it takes longer to build today. Our yields on the last set of fully-stabilized assets are better, probably in the 7% range, and now we're in the low 6% zone at this point.

Rob Stevenson – Janney Montgomery Scott

What about the development you expect to start in 2018, where are you on that? Are you basically cherry-picking the best returns, or are you targeting specific markets?

Ric Campo – Camden Property Trust

We are absolutely driven by long-term, unlevered IRRs that have a spread against our long-term weighted average cost of capital. Markets are important in terms of driving the decision, but the key is making sure the numbers work going in. A good example would be South Florida. We've owned land there for a long time, trying to figure out how to build there and haven't been able to make the numbers work. I recall our Boca Raton deal where we owned the land for 8 years before it started working, and then it made sense, and it's a great yield now. It's more driven by long-term, unlevered IRRs that we can earn and not necessarily markets. We do development today because of land costs and construction costs. For example, we built three properties in Charlotte, and the construction cost from those three properties is probably up 30% from what we built them for in the last three years. The rents are not up 30%, so you know what that does to yields.

Rob Stevenson – Janney Montgomery Scott

When do you renew on your insurance? What are you expecting there, and do you plan to do more self-insurance if rates go up meaningfully?

Alex Jessett – Camden Property Trust

Yes. We are actually in the market right now working on a renewal with a May 1st effective date. What we're being told on the property side is to expect premiums up 10%-20%, and that's what we have budgeted. But when you actually take property and you combine it with general liability and all of our other insurance lines and then pull in our self-insured retention component, we've got property insurance for calendar year 2018 up about 5%. There's no doubt this is going to be a very tough renewal process.

Rob Stevenson – Janney Montgomery Scott

Thank you.

John Pawlowski – Green Street Advisors

I want to follow up on Rob's question. On 2018 starts, what is the stabilized yield and spread to prevailing cap rate assumptions?

Ric Campo – Camden Property Trust

Yields are going to be in the low 6% range, assuming we get those yields, because we haven't started them. The spread to cap rates in those markets today is probably 150 basis points.

John Pawlowski – Green Street Advisors

You were able to raise equity at, in hindsight, a pretty attractive price given the selloff in REITs. Five months later, you're left with a different opportunity set and deploying that capital, to your comments, acquisitions and developments are only getting more competitive. You can buy stabilized yields at mid-to high 4% or you can build at a 6%, which carries some risk. Now suddenly, you can buy the stock back at a mid-5% implied yield with no risk. Has this discount caused you to re-evaluate your plan at all? And if not, what discount will it take for you to change your plans?

Ric Campo – Camden Property Trust

The stock price selloff for all multifamily companies is new in the sense that it's a 3 or 4-week deal. We put together our plans through the end of the year, and you always have to re-evaluate where you are based on current market conditions. We haven't been in this period long enough to abandon our program this year to buy the stock back at this point. Buying stock back at a significant discount is an opportunity that doesn't happen often. When we bought back 16% of our company at roughly a 20% discount during the tech days in 1998-2000, we had a persistent discount, and we were able to sell an asset and buy the stock back. It was very methodical and perfunctory at the time to do, but was the right thing to do. If the stock stays at a significant discount and it's persistent, and we're able to get size in the buyback, then we'll do it. We're evaluating that now and will continue to do so. If you look at the last four or five years the volatility of stocks has been huge. We were trading at a 15%-16% discount at the beginning of 2013 or 2014 and had lots of conversations with senior management and our Board saying we need to buy the stock. And then the stock was up $20 per share in a month. So we didn't have the opportunity to buy it at that point. It has to be persistent and it has to be a significant discount for us to change our long-term strategy of owning and operating apartments, and driving cash flow.

John Pawlowski – Green Street Advisors

At today's levels, nothing stays static. But at current levels if it persisted today, it wouldn't make you reconsider?

Ric Campo – Camden Property Trust

If you think about what we did last time it was a 20% discount and persistent. The challenge you have in terms of trying to buy the stock back is it's hard to do and takes a while. We're going to evaluate it, and put capital allocation priorities on the table and say, here's what you get from development and acquisitions, and here's what you get from buying stock. How can we do this, and does it make sense in the short-term knowing that this is a long-term business? We're going to look at it, and if we get an opportunity to create a lot of value that drives cash flow and per share growth and do that with little execution risk, then we're going to do it.

John Pawlowski – Green Street Advisors

Thank you.

Drew Babin – Robert W. Baird

A question on Washington, DC, your largest market. Going out to 2018, it seems that outside of defense, government and government-related employment it should be pretty weak combining that with new supply. How do you view your relative portfolio positioning in the market and is there any new strategy for this year in terms of managing for occupancy versus rate? Anything that you're doing that's proactive?

Ric Campo – Camden Property Trust

I disagree with your comment that Washington, DC is driven by government workers. Government is definitely a significant part of the economy. The Washington, DC metro area is one of the highest education profiles for MBAs and master degrees, one of the richest, highest-paid workforces, lots of technology, and very economically driven by the overall economy. Given the tax cuts and animal spirits perhaps that the administration is creating on the business side, you could pick up additional economic growth that would help Washington, DC. I'm not worried so much about the government and what their workers are doing.

Keith Oden – Camden Property Trust

From the standpoint of where the numbers shake out, we have a very different footprint than a lot of our competitors do. It's not heavily oriented towards DC proper. Washington, DC produced top-line revenue growth of about 3.2% last year. We're looking closer to 3% for 2018, so a slight decline from the prior year. 2018 to me, unless you get any external shocks and government shutdowns and other madness that comes and goes from time to time in Washington, DC, it seems like almost a repeat of

2017. We're going to get another 10,000 apartments delivered in 2018, but we should get about 40,000 new jobs, and that's okay. That's enough to keep us in a steady state at about 3% top-line revenue growth.

Drew Babin – Robert W. Baird

Would it be fair to say that the vast majority of the supply that's going to impact the MSA is located in the ballpark area of southwest DC, maybe a few other pockets? Are there any pockets in Camden's portfolio where there might be an outsized impact from anything delivering in 2018?

Keith Oden – Camden Property Trust

I mentioned 10,000 completions for 2018 in Washington, DC. There's a competitive set in the area by the ballpark that's going to impact us. Outside of that, we've been pretty fortunate with our footprint in Washington, DC to have missed a good portion of this cycle of new development, and that certainly has baked into our 3% growth plan for next year.

Drew Babin – Robert W. Baird

That's very helpful. Thank you.

Dennis McGill – Zelman & Associates

First question has to do with the storm-impacted markets, which are Houston, Orlando, and Tampa, all collectively. If we think about 2017, the final revenue number came in at 2.9% versus 2.8% midpoint that you started the year. Any sense on how much the storms benefited that number? And assuming it is material, where were the offsets relative to initial expectation?

Keith Oden – Camden Property Trust

In Houston, the impact would be meaningful. It's pretty easy to do the math. We had a top-line revenue decline that was factored in for the year of 4% for the full year, and we ended up at about 2%. It's 12% of our income, so 48 basis points in over half a year. It was a meaningful impact from Houston on the overall portfolio. I would say Orlando and Tampa are approaching 0. We got very fortunate on the path of the storm. Other than a few nicks and bruises, and trees down in those two markets, we really didn't see any impact on the operating expense side or on the rental side outside of normal cleanup. In Houston, we had about 53 employees who were impacted to some degree from Hurricane Harvey. About 23 of them were displaced from their homes by the flood. We did not have a single employee in

our Florida footprint who was displaced by Hurricane Irma. I'd say it is zero in Florida, and was probably pretty meaningful in Houston.

Dennis McGill – Zelman & Associates

I wasn't thinking of existing residents in Florida, but, as you talked about earlier, the inflow of demand from outside of Florida.

Keith Oden – Camden Property Trust

That really didn't start until towards the end of the year where people started throwing their hands up and saying this is way longer of an event than anyone thought it was going to be in Puerto Rico. Maybe we have some impact in 2018 and that could be helping us with our occupancy rate in Orlando right now, but we'll just have to see how that plays out.

Dennis McGill – Zelman & Associates

As you look at the guidance this year, the 3% revenue midpoint, can you break that down into rent and occupancy? And then beyond the modest benefit from the cable package that you still expect in 2018, is there any other ancillary income that would impact that number?

Keith Oden – Camden Property Trust

I'd say no on ancillary income. We're at 95.7% occupied right now. Our plan for the year would be 95.5% for the full year, so a very slight impact from occupancy decline, 20 to 30 basis points. On the rental side, that would be slightly more than what the 3% would imply so 20 basis points on rent versus the giveback on occupancy.

Dennis McGill – Zelman & Associates

You talked about the wall of capital coming at the space and some of the demographic factors that you would look at as being very positive as you look out a couple of years, and a story that's very similar to what's driven a lot of the development in the space for the last couple of years. I'm trying to square that with why supply would pull back if those in the industry have those two pillars to stand on and some optimism for the next couple of years, especially if the belief is other people are pulling back, then would now be a good time to start and so it becomes a little bit self-fulfilling.

Ric Campo – Camden Property Trust

If developers can get capital they will start, and that's a merchant builder mantra. What is causing developers not to start are rising land and construction costs. Labor shortages in every market have driven construction costs or total project cost up higher than rental rate growth. The returns that private equity wants have been really hard to get. That's what is really driving the slowdown. People look at the market and say, demand looks good over the next couple of years. That doesn't mean you're not going to have construction starts on any units, it's just not going to be at peak levels. It's going to drop dramatically because there are a lot of deals that won't pencil today, and if you can't convince the capital that you're going to make your numbers then the capital is not going to play. If you look at banks and the lending environment, it continues to fall in terms of lenders' appetites to finance multifamily and real estate in general, as they think it's late in the cycle.

Basel III or IV creates the category of highly volatile commercial real estate, so lenders have all pulled back. The capital stack for the merchant builders has changed dramatically. In an early cycle time frame, you were able to get a 70% construction loan, recourse burns off after you deliver, and then you do 30% equity, and maybe you get higher than 70%. Today, it's a 50%-55% underlying construction loan. Developers are having to go out and put mezz pieces in between the 50%-55%, 60% if you're the best case, and then they put a mezz piece on top of that and then equity on top of that. Their cost of capital has gone up in addition to the cost of everything else. Rents have moderated and haven't gone up enough to make the numbers work. That's why supply is going down. Not that they don't want to do it, they just aren't able to make the numbers work.

Dennis McGill – Zelman & Associates

That's a helpful perspective. Maybe one way to think of it is it's a wall of capital that won't get placed.

Ric Campo – Camden Property Trust

The wall of capital that I was talking about is acquisitions, because that’s a different animal. Most acquisitions look at it the same way. If construction costs are going up an average of 5% a year for the next five years and I'm an institutional investor, rents are moderating, but they're still good and there's still positive NOI you can get 2.5%-3% NOI growth. If I buy an asset today, no one's going to build against me in the future if it's going to cost 25% more to build that asset. I'm going to buy today with the belief that I'll have growing cash flow that's inflation-protected in theory and some replacement cost protection in the future as well. I think that capital gets placed, and that's the toughest part of the

equation in competing with that wall of capital. There is no wall of capital for development because it's not as easy of a sell.

Dennis McGill – Zelman & Associates

If the wall of capital goes after acquisitions and drives down cap rates, doesn't that lower the required return necessary on the development side?

Ric Campo – Camden Property Trust

No, I don't think cap rates are going to be driven down. I actually think they're going to stay in the low to mid-4%s. For example, we just priced an asset in Charlotte. We can't get it out of the high 4%s from a yield perspective when it's stabilized, and that's assuming rents continue to rise in Charlotte at 2% or 3%. It's because construction costs went up 30%. If I can't even get my proforma to a 5%, then how do I make that work even if the cap rates today are 4.25% or 4.5% in Charlotte and I'm building to a 4.75%? I don't have enough spread, and a merchant builder is not going to get that deal financed. I'm not going to do it even though I don't have the same capital constraints that they do.

Dennis McGill – Zelman & Associates

Thank you. I appreciate the time.

Ric Campo – Camden Property Trust

I appreciate your time today, and we look forward to having more detailed discussions when we start the meeting cycle in March. Take care, and thank you.