CAMDEN
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Fourth Quarter 2018 Earnings Call

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Kim Callahan – Camden Property Trust

Good morning, and thank you for joining Camden's fourth quarter 2018 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 2018 earnings release is available in the Investors section of our website at camdenliving.com, and it includes reconciliations to non-GAAP financial measures which will be discussed on this call.

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

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

Ric Campo – Camden Property Trust

Good morning. As the hold music artist "Queen" suggests, our Camden team members surely are the "Champions of the World". Well, maybe not the world but at least their markets, by outperforming their competition and driving customer sentiment scores to new highs. I'd like to give the entire Camden team a shout out for a great 2018. They, in a major way, supported Camden's purpose as a company, which is to improve the lives of our employees, our customers and our shareholders one experience at a time.

2018 was another solid year for Camden. We ended the year above the original guidance that we gave at the beginning of the year. Revenues were slightly better than we projected, and we outperformed our expense guidance, primarily as a result of our "Attack-the-Run-Rate" initiative along with lower health care costs and an adept property tax team that worked hard in 2018.

2019 should be a lot like 2018, with slightly increasing revenue growth and increasing operating expenses a bit, ultimately keeping our net operating income growth at similar levels to 2018. We begin the year with the strongest balance sheet in the multifamily sector. Our development pipeline continues to provide increasing FFO and NAV contribution. New supply of apartments in our markets is relatively the same as 2018, while demand continues to be strong enough to absorb that supply, while continuing to allow us to produce same store revenue growth. We'll continue to pursue development and acquisition opportunities in a very competitive environment.

We appreciate your continued support, and I'll now turn the call over to Keith Oden to give us an update on markets.

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 2019. I will address the markets in 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 operations and our 2019 same property guidance.

We anticipate same property revenue growth will be between 2%-5% this year in each of our markets, with a weighted average growth rate of 3.3% at the midpoint of our guidance range. All of our markets received a grade of B- or higher this year. As Ric said, 2019 should look very similar to 2018 for Camden, and that's reflected in how little movement we have in comparing our 2018 revenue growth to our projected 2019 revenue growth among our 13 markets. Only two markets moved more than two spots in the rankings this year. Orlando moved from #1 to #5, Southern California moved from #6 to #3, and no market moved from top half to bottom half or vice versa. Further, 10 of our 13 markets are rated as stable for 2019. All of this is pretty unusual for Camden's portfolio.

Our top ranking for 2019 goes to Denver, which we rate an A with a stable outlook. Our Denver portfolio has been a strong performer, averaging 5% annual same property revenue growth over the last three years. Approximately 40,000 new jobs are expected during 2019, and supply remains steady with 13,000 new units scheduled for delivery this year. We expect our Denver assets will meet or exceed the 4.2% revenue growth achieved during 2018.

Phoenix also earned an A rating with a stable outlook. Supply and demand metrics for 2019 look strong, with estimates calling for nearly 50,000 jobs and 9,000 new units coming on-line this year.

We give Southern California an A- rating with an improving outlook. Our portfolio there spans from Hollywood down to San Diego, and in aggregate our California markets face healthy operating conditions with balanced supply and demand metrics. Job growth should be around 120,000 over this region, with completions of 24,000 units expected in 2019.

Orlando and Raleigh each received an A- rating with stable outlooks again this year. Orlando was our #1 performer in 2018 with 4.9% same property revenue growth, and should be in our top five again this year. Another 40,000 new jobs are expected there in 2019 with only 6,000 completions. In Raleigh, new developments have been coming on-line steadily with 6,000 new units delivered last year and 5,000 more expected this year. Job growth has also been stable, and over 20,000 new jobs are projected for 2019, in-line with employment growth levels in 2017 and 2018.

Up next is Atlanta, which we have ranked as a B+ with a stable outlook since 2016. Job growth has been strong in Atlanta and approximately 60,000 new jobs are projected for 2019. Completions also remain steady with 9,000 new apartments scheduled for delivery this year.

Houston keeps its rating of B and improving again this year. After negative same property results in 2016 and 2017, our Houston portfolio rebounded in 2018 to achieve 2.7% revenue growth. We expect to see slightly better results in 2019, as projected completions remain around 7,000 and job growth estimates are roughly 10 times that, with over 70,000 new jobs anticipated in Houston this year.

In Tampa and Washington DC, conditions are currently a B with stable outlooks. Tampa's new supply should come down slightly to around 4,000 units this year with 25,000 new jobs projected, putting the jobs-to-completions ratio at a healthy level of six times. We expect 2019 to look a lot like 2018 with regards to same property growth in our DC Metro portfolio. Last year we achieved 2.8% revenue growth in DC Metro and our projections for 2019 reflect a slight improvement from there. Supply and demand metrics reflect estimated completions of 13,000 units with 40,000 new jobs projected in 2019.

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 and another 9,000 units are anticipated this year. Job growth should remain slightly above 30,000 this year, and we expect our portfolio's revenue growth to improve from the sub-2% level achieved in 2018.

Our last three markets, Dallas, Southeast Florida and Austin, all earned a B- rating with stable outlooks. In Dallas, job growth has been solid, with over 70,000 jobs created last year and a similar amount expected during 2019. But with over 20,000 completions last year and nearly 20,000 more units coming on-line this year, the Dallas apartment market will remain challenging in 2019. Southeast Florida has more new apartments coming on-line and faces additional competition from resale and rental condominiums. With projections of 35,000 new jobs and 10,000 new units in 2019, we expect pricing power and revenue growth to remain limited for our portfolio this year. In Austin we expect to see limited revenue growth again this year. New supply should start to decline in 2019, but remains at a very high level. Approximately 10,000 new units are anticipated this year with around 37,000 new jobs, leaving little room for pricing power in the Austin market.

Overall, our portfolio rating is a B+ again this year, with most of our markets expected to see similar to slightly better results than in 2018. As I mentioned earlier, all of our markets should achieve between 2%-5% revenue growth this year, and we expect our 2019 total portfolio same property revenue growth to be 3.3% at the midpoint of our guidance range. This compares to same property revenue growth of 3.2% for 2018.

Now a few details on our 2018 operating results. Same property revenue growth was 3.0% for the fourth quarter and 3.2% for full-year 2018. Our top performers for the quarter were Denver at 5.4%, Phoenix at 4.3%, Orlando at 4.2%, DC Metro at an improved 4.1%, and San Diego/Inland Empire at 4.0%. As expected, fourth quarter revenue growth was under 2% in some of our supply-challenged markets including Dallas, Charlotte, and Southeast Florida, and also in Houston where we faced a 200-basis point negative comparison on occupancy this quarter versus our 4Q17 post-Hurricane Harvey occupancy of 97%. With occupancy currently over 95% in Houston, we expect minimal impact from negative occupancy comps going forward in 2019.

Rental rate trends for the fourth quarter were as expected with new leases flat and renewals up 5.0% for a blended rate of 2.4% growth, and our preliminary January results are in a similar range. February and March renewal offers are being sent out in the 5% range.

Occupancy averaged 95.8% during the fourth quarter, compared to 95.7% last year. January occupancy has averaged 95.8% compared to 95.4% in January 2018, so we're off to a good start this year. Annual net turnover for 2018 was 200 basis points lower than 2017, at an all-time low of 44% versus 46% last year. Moveouts to purchase homes were 15.5% in the fourth quarter of 2018 and 14.8% for the full year, down 40 basis points from 2017 full-year levels. All in all, good execution in 2018, and it looks like we have a great game plan laid out with our teams to accomplish for 2019.

I'll now 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 and financing activities. During the fourth quarter, we reached stabilization at Camden NoMa II in Washington, DC. This $109 million development is expected to deliver a stabilized yield of approximately 8.25%, creating over $80 million of value for our shareholders. Also, during the quarter, we completed construction at Camden Washingtonian, an $87 million development in Gaithersburg, MD and Camden McGowen Station, a $91 million development in Houston, TX. In 2018, we completed $300 million of acquisitions and started $280 million of new development with no community dispositions, for $580 million of net real estate transactions.

Turning to our fourth quarter financing activities, on October 1 we repaid at par $380 million of secured debt consisting of $175 million of 2.86% floating rate debt and $205 million of 5.77% fixed rate debt, for a blended average interest rate of approximately 4.4%. The repayment of this secured debt unencumbered 17 communities valued at approximately $1.1 billion. We repaid this secured debt using proceeds from a $400 million, 10-year unsecured bond offering which we completed on October 4. The effective interest rate on this new unsecured issuance is approximately 3.74% after giving effect to the settlement of in-place interest rate swaps and deducting underwriter discounts and other estimated expenses of the offering. After taking into effect these transactions, at year-end 79% of our debt was unsecured and 89% of our assets were unencumbered.

Our balance sheet is strong with net debt-to-EBITDA at 4.1 times and a total fixed charge coverage ratio of 5.5 times. We ended the quarter with no balances outstanding on our $645 million unsecured lines of credit. Our current line of credit balance after the January 2019 payment of our fourth quarter dividend, the payment of property taxes which are disproportionately due in January, and the repayment today of $200 million of secured debt with an interest rate of 5.2%, is approximately $270 million. We have $239 million of additional secured debt due early in the second quarter with a weighted average interest rate of 5.2%. This debt can currently be repaid at par. We have $613 million of development currently under construction, with $335 million remaining to fund over the next two years.

Moving on to financial results, last night we reported funds from operations for the fourth quarter of 2018 of $119.4 million, or $1.23 per share, exceeding the midpoint of our prior guidance range by $0.01. This $0.01 outperformance resulted almost entirely from lower same store operating expenses due to lower turnover costs, lower amounts of self-insured health care costs, and continued cost control measures.

Turning to 2019 earnings guidance, you can refer to page 27 of our fourth quarter supplemental package for details on the key assumptions driving our 2019 financial outlook. We expect our 2019 FFO per diluted share to be in the range of $4.97 to $5.17, with the midpoint of $5.07 representing a $0.30 per share or 6.3% increase from our 2018 results. The major assumptions and components of this $0.30 per share increase in FFO at the midpoint of our guidance range are as follows:

- An approximate $0.18 per share increase in FFO related to the performance of our 42,972-unit same store portfolio. We are expecting same store net operating income growth of 2.3% to 4.3%, driven by revenue growth of 2.8% to 3.8% and expense growth of 2.75% to 3.75%. Each 1% increase in same store NOI is approximately $0.055 per share in FFO.
- An approximate $0.19 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 2018 and 2019, our recently stabilized Camden NoMa II development, and our three acquisitions completed in 2018; and
- An approximate $0.06 per share increase in FFO due an assumed $300 million of proforma acquisitions spread throughout the year at an assumed year 1 yield of 4.5%.

This $0.43 cumulative increase in FFO per share is partially offset by:

- An approximate $0.02 per share decrease in FFO due to an assumed $100 million of proforma dispositions in the latter part of the year.
- An approximate $0.05 per share decrease in FFO resulting from the combination of lower interest income from lower cash balances, an approximate 2% increase in combined corporate general and administrative and property management expenses, and higher corporate depreciation and amortization due to the implementation of a new cloud based accounting and human resources system; and
- An approximate $0.06 per share decrease in FFO due to higher net interest expense resulting primarily from actual and projected 2018 and 2019 net acquisition and development activity, partially offset by the accretive refinancing of maturing secured debt.

We currently anticipate borrowing approximately $700 million of new unsecured debt in 2019, spread between early and mid-year at an all-in rate of approximately 4%. These proceeds will be used to refinance maturing secured debt and fund both net acquisition and development activities. In addition, we anticipate recasting and upsizing our existing unsecured line of credit in the early part of 2019.

Our same store expense growth range of 2.75% to 3.75% for 2019 is primarily due to expected increases in salaries and benefits, and property taxes. Salaries and benefits represent just over 20% of our total operating expenses and are anticipated to increase by 5%. As discussed on prior calls, in 2018 we were responsive to the effects of general labor tightening and made market-driven wage adjustments where appropriate. Despite these salary increases, in 2018 we experienced unusually low amounts of self-insured health care expenses, resulting in our 2018 increase in salaries and benefits to be approximately 3%, well below our original 6.5% estimate. We are not anticipating that these low amounts of health care expenses will be repeated in 2019.

Property taxes represent 1/3 of our total operating expenses and are projected to increase approximately 4% in 2019, primarily driven by Charlotte and Denver. Charlotte only revalues for property tax purposes every 8 years and 2019 is the year, and 2019 is an every other revaluation year for Denver. Our 2019 property tax assumptions are based upon us successfully protesting and litigating, if necessary, the 2018 previously discussed outsized property tax valuations in Atlanta. Excluding salaries and benefits and taxes, the remainder of our property level expenses are anticipated to increase at less than 2% in the aggregate.

Page 27 of our supplemental package also details other assumptions I have not previously mentioned, including the plan for $200 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 2019. We expect FFO per share for the first quarter to be within the range of $1.18 to $1.22. The midpoint of $1.20 represents a $0.03 per share decrease from the fourth quarter of 2018 which is primarily the result of:

- An approximate $0.02 decrease in sequential same store net operating income. Of this amount, $0.015 is due to sequential increases in property taxes resulting from the reset of our annual property tax accrual on January 1 of each year. The remaining $0.005 of the sequential decrease in same store NOI is due to other expense increases primarily attributable to typical seasonal trends, including the timing of onsite salary increases partially offset by a slight increase in same store operating revenues; and
- An approximate $0.01 per share decrease in FFO due to a combination of lower interest income resulting from lower cash balances and higher overhead expenses due to the timing of salary increases and certain other corporate expenditures.

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

Trent Trujillo – Scotiabank

Good morning. Thanks for taking the questions. Good fourth quarter and great 2018. Your guidance calls for you to be a net acquirer, which makes sense with your low leverage. Can you talk about the deal flow that you've seen and the pricing and buyer pool competition for the assets, and how you expect to find attractive deals?

Ric Campo – Camden Property Trust

We just got back from NMHC in San Diego. They had a record attendance of over 7,000 people, which indicates the popularity of multifamily with investors today. It remains a very competitive environment. There's no question about that. What's happening right now is sort of a standoff between buyers and sellers. Buyers understand that you kind of have normal revenue growth as opposed to white-hot revenue growth. You have this spread between bid and ask at this point. There really haven't been a lot of transactions in the last month or two in 2018. There haven't been enough data points to really understand what's going on now. What we think is going happen, though, is that there will be a movement towards the center of that bid-ask spread gap today, because sellers need to sell and buyers need to buy. I think it's going to continue to be competitive.

If you look at the last three or four properties we bought, we're looking for below replacement cost transactions that are a mid-4% to low-4% cap rate, where we believe, through improved operations and Camden-izing the property, we can move that cap rate up pretty quickly over a couple of years to a 5% cap rate plus or minus. We think there will be opportunities. Our guidance is $200 million to $400 million. Today everything is pretty much $100 million or more, so we're talking about three or four transactions perhaps. We think that, given the backdrop for sellers coming towards the buyers, deals are actually going to happen. The key for us, though, is finding that needle in the haystack, where we think a property is very undermanaged and where we can come in and move the NOI up, not by hoping the market goes up, but by knowing that we can operate the properties better.

Trent Trujillo – Scotiabank

Great, that's very helpful. Just a follow-up, can you talk about the concessionary environment in some of your largest markets that are facing high supply? We've looked at Atlanta and Dallas, and you touched on those markets in your prepared remarks. Are you seeing supply pressures easing there and pricing power coming back in 2019? What's the concessionary environment?

Ric Campo – Camden Property Trust

In the development business, the concessionary environment varies depending on submarket and market. You can't just say it's two months free or one month free or three months free. It definitely varies by submarket for developers who are leasing projects up, when you have a vacant building that just opens, free rent doesn't really matter to them because they're just trying to get to a stabilized occupancy. The more aggressive markets have three months free, and generally you don't go over that, and the more moderate markets have one to two months free. In Houston, prior to Hurricane Harvey, there were three months free in downtown. Today, it's more like 1.5 to 2 months free, and yet the market is starting to turn over in a sense. If you have a 350-unit apartment and you're 75%-80% occupied and it's taken you a year or so to get there, you now start having renewals. The question will be whether those concessions are being given to the renewals. Markets that are very competitive in Dallas are two to three months free, which would be in the uptown area. Charlotte was pretty concessionary, but I think we've seen some of the concessions moderate as properties are leasing up.

The good news for us is when you have a 95% occupied property that is stabilized, and you think about the number of leases you need to capture to keep that stabilized 95%, it's pretty small. The fact that a new property is giving significant concessions doesn't mean that existing properties have to. That supports our same store revenue growth because we have a very stabilized portfolio, and you don't have to give those kinds of concessions to capture market share in stabilized properties. On the one hand, you have concessions on the development side of the equation, and on the other hand you don't have concessions in the operating portfolio. What you have is just the moderate ability to increase your revenues 2% to 3% or 4%, depending on the market.

Trent Trujillo – Scotiabank

Great. Thank you very much. I appreciate the time.

Nick Joseph – Citigroup

On Houston, does the 70,000-job growth assumption contemplate oil prices at their current level? Do you need to see job growth in the energy sector, or do you think you can get enough job growth in medical and petrochemical sectors that will drive enough demand?

Keith Oden– Camden Property Trust

The 70,000-job growth in Houston does not contemplate any large contribution from the oil companies. The recency effect is pretty strong among the Houston oil companies from three years ago when they were still downsizing and laying people off. When you come from that as your backdrop, there's a great deal of reluctance to add staff even in an environment where volumes are increasing, which they clearly are. $54 to $55 per barrel is probably a steady-state in terms of total activity. Activity in the field has increased significantly from where it was two years ago, but most of what goes on is the back office and support operations, and oil companies are still reluctant to add staff. But there will come a point where they've stretched to the limit and will start to add jobs, but that's not a 2019 event. The 70,000 jobs are primarily in areas in the medical center and distributed across Harris County. I think 70,000 jobs is probably very doable for 2019. The most important part of the Houston picture is the 7,000 completions that we're going to get in 2019. That's almost a 10:1 ratio, and that's very healthy for where we are in Houston right now.

Nick Joseph – Citigroup

Thanks. On the Phoenix and San Diego future development projects, what's driving the estimated cost increases? Is it a change in scope or market construction cost pressures?

Ric Campo– Camden Property Trust

It's both. We have reconfigured the San Diego project and made it more efficient and are trying to maximize the views that we have from that elevated site. We have had scope changes in both of those projects, but cost continues to be an issue in every market.

Nick Joseph – Citigroup

Thanks.

John Kim – BMO Capital Markets

Keith, on your market outlook for the year, I think that's based primarily on same store revenue. If you were to look at it on same store NOI, would there be any market that differed in your grade or outlook?

Keith Oden– Camden Property Trust

You get swings in NOI primarily based on things like property tax, one-offs like the situation Alex described we're going to have in Charlotte this year, where you have an 8-year revaluation event. When I look at these results I tend to focus primarily on same store revenue growth year-over-year, but I also look back over a 3-year trend. The second piece that's critical is looking at the jobs-to-completions ratio market by market. If you look at it in total across Camden's platform, for 2019 we should get about 642,000 jobs and about 135,000 new apartments. That's a 4.7 ratio. We've always talked about a 5.0 ratio being equilibrium and that's interesting, but you've got to dig into that data because at the low end of that ratio range, you have Denver at a 3.0 ratio and DC Metro at 3.1 ratio. At the high end of that range, you have Houston at over 10.0 ratio and Atlanta at a 7.0 ratio. Those are the biggest indicators to me about the directionality of the market. For our overall portfolio rankings, we've got 10 out of 13 markets rated as stable. There are not a lot of swings that we're anticipating in the portfolio.

John Kim – BMO Capital Markets

External growth is a component of your FFO guidance, and that might be a little bit unique in the sector. Earlier today your stock hit a 5-year high. If you hit your acquisition target for the year, what is your appetite to raise common equity again versus utilizing your ATM or dispositions or raising your leverage level?

Ric Campo– Camden Property Trust

We have the luxury of having the best balance sheet in the sector, so we have capacity on the debt side. When we look at raising capital via either debt or common stock or dispositions or other mechanisms in between, it's always a balance about keeping a strong balance sheet but understanding that if you're growing externally, you need to have capital. We look at each of those capital levers and decide what the most appropriate and efficient one is at the time. We're excited about our stock hitting an all-time high, but on the other hand debt levels are low and interest rates are low as well. It's just a balance between trying to figure out what the best fit is for the capital.

John Kim – BMO Capital Markets

But was there anything with the last raise that you did as far as not deploying the capital as quickly as you anticipated that you would think of it differently this time around?

Ric Campo– Camden Property Trust

I think you take all facts into consideration when you're thinking about capital transactions and trying to balance them together. When we raised equity in 2017, we did think that 2018 was going to be where the buyers were going to have more leverage than the sellers and that there would be more opportunity, and there just wasn't. 2018 sales for multifamily increased over what 2017 was. The good news for us is that even though we didn't hit our acquisition guidance last year, we did increase development. On the one hand, you can't deploy all your capital when you start a development because it takes 18 to 24 months to get that capital out. The way we looked at that equity raise was we could do acquisitions and/or development, and when you add the acquisitions and development, we exceeded our development projections but underachieved our acquisitions. Even though people think we didn't deploy, we actually did. It just takes time to deploy the development.

John Kim – BMO Capital Markets

Thank you.

Austin Wurschmidt – KeyBanc Capital Markets

Good morning. Just curious if the peak deliveries in Houston from 2017 have been absorbed at this point, and then could you provide what your supply outlook for Houston is for 2020?

Keith Oden– Camden Property Trust

I think the ones that started at the beginning of the year have probably all been absorbed. Those that delivered at the end of 2017 are probably still in the process, depending on the size of the project. I would say that substantially the 2017 product has been absorbed. We had huge deliveries in 2018 that are still an overhang on the market. The submarkets that got most of the activity, which were downtown, midtown, the uptown area and Galleria, those were the locations that attracted the most capital and the newest deals. They're still fighting and plugging it out in hand-to-hand combat. As Ric mentioned earlier, we're still in the 1.5- to 2-months free concession range in those submarkets. When you move beyond those three areas that got most of the new supply in 2018, it's a totally different picture. Our footprint in Houston has some exposure in those impacted markets, but we have a lot of exposure that's not impacted by new supply. That's why we've been able to produce the results that we did last year in Houston, and why it forms the basis for our optimism for 2019. In terms of deliveries for Houston, we've got about 7,000 apartments this year. Witten has deliveries in 2020 up to 13,000. From a supply standpoint, that's still not a terribly troubling number for Houston so long as we get what we normally get in terms of job growth. The progression would be 7,000 deliveries in 2019 and 13,000 deliveries in 2020.

<u>Austin Wurschmidt – KeyBanc Capital Markets</u>

Great. Thanks for that. You've referenced a few times having the best balance sheet in the sector. What's your appetite to increase leverage from current levels?

<u>Ric Campo– Camden Property Trust</u>

We have talked about keeping our debt-to-EBITDA in the 4 to 5x range, and right now we're at the low end of that range.

<u>Austin Wurschmidt – KeyBanc Capital Markets</u>

Where do you expect to end the year in 2019?

<u>Alex Jessett– Camden Property Trust</u>

At year-end, we'll be somewhere around 4.4x.

<u>Austin Wurschmidt – KeyBanc Capital Markets</u>

Thanks.

<u>Shirley Wu – BofA Merrill Lynch</u>

Thanks for taking the question. Currently you're guiding to 2.8% to 3.8% in terms of revenue growth. What do you think it will take to get to the high or low end of that range?

<u>Keith Oden– Camden Property Trust</u>

A lot better than expected job growth or a lot worse than expected job growth. I think that's the single biggest variable when we look at performance. The supply is easy to predict because whatever is coming in 2019 is known and knowable. The wildcard is jobs. You've got to like the print this morning of over 300,000 new jobs. Witten's projected US job growth in 2019 is right at 1.9 million. You may not get a bunch of 300,000s. We've got 300,000 of the 1.9 million in our estimates. I like our odds of getting over the 1.9 million jobs that we're using in our forecast.

Shirley Wu – BofA Merrill Lynch

Got it. On development, a lot of your competitors have noted that there have been delays due to tight labor markets. But I noticed that Camden North End I is delivering a quarter early. What do you think you're doing differently, and going forward, do you anticipate labor to affect your future deliveries?

Ric Campo– Camden Property Trust

Labor is definitely an issue, and that's what's caused most delays in construction. In the case of Camden North End I, we just have a great team out there that executed amazingly. I applaud all of our development teams because they're definitely doing what they can to beat their competitors to market and to be very efficient. If you think about the delays, we've been talking about delays for the last three years. One of the things we did as a team is try to anticipate the delays in our construction budgets. You have a little erring on the side when you think of your schedule, we know we're going to have issues, let's kind of stretch it out. When the team executes amazingly well, you end up bringing it in faster than you thought and at a lower cost than you thought. If you bring it in faster, general conditions and other costs that are associated with time go down, so we were very fortunate in Arizona and we're trying to achieve that in other projects, too.

Shirley Wu – BofA Merrill Lynch

Great. Thanks for the color.

Drew Babin – Robert W. Baird

Good morning. I wanted to talk about Washington, DC. Obviously, your price point is more on the value-oriented side of the spectrum there. How do you feel about where you're positioned relative to where new supply is pricing where you are geographically around DC Metro? Also, are you hearing anything from your properties about waived late fees or anything like that with regards to the government shutdown?

Keith Oden– Camden Property Trust

For 2019, we've got DC Metro at a B stable, which is exactly what we had it rated for 2018. That still feels about right. 40,000 new jobs in the DC Metro and roughly 13,000 completions. You would think of that as adding to pressure, and I think that's right. The difference is, it just depends on the geography of your footprint. The most supply-impacted markets have been DC Proper and then the

Crystal City area. We have a very different footprint than a lot of our competitors do. Our Northern Virginia and Southern Maryland assets have continued to put up really good results. I think it just depends. Our forecast for DC Metro has total revenue growing at about 3%. That's up from 2.8% last year, and that seems about right to me.

In terms of the impact from the government shutdown, we literally have had a handful of folks that have indicated they needed relief. We've indicated to all of our folks that are impacted that we would work with them on late fees and the like. The good news is that by today, most people will have gotten their backpay. If they've made it this long being under financial duress, they're probably okay until the next shutdown.

Ric Campo– Camden Property Trust

I think it's interesting when you think about the government shutdown and how it affected people given all kinds of things over the years, from hurricanes to snowstorms to things that caused residents to be dislocated and not be able to pay. In this situation when the government shutdown started, our teams put together a program for anyone that was government-related and not just government employees, because what happened is a lot of contractors were furloughed, so it's private companies that are working on government projects. I was really excited and happy that our teams were way in front of that and sent out information. It's not just Washington DC, it's all over the country. We were prepared to deal with the issues, and as good corporate citizens, understand that our customers may have trouble making their rent if they don't get paid by the government. Our teams were way in advance of that, and we didn't miss a step on helping our customers.

Drew Babin – Robert W. Baird

Great, that's helpful. Quickly transitioning to Southern California, I think there’s a similar dynamic where your price point may differ from some of your peers, and like DC Metro, the supply is coming in pockets, where you're either affected by it or not. Can you talk about your broad Southern California exposure, where there might be pockets of supply you're exposed to, but also who's adding jobs in the Inland Empire, Orange County, San Diego, and your main focused markets there?

Keith Oden– Camden Property Trust

Our portfolio is a very different footprint. When we're aggregating these numbers, we're giving you results that go all the way from San Diego up to Hollywood. I would say there's not any place other than directly adjacent to or near Irvine where we have a supply concern. We just don't. It's just so difficult, it takes so long, and the planning and delivery process for apartments is just really difficult all over Southern California. You're looking at 23,000 deliveries over that entire footprint, and 118,000 new jobs projected for Southern California. That's a 5.0 ratio. As long as you don't have two or three deals trying to get leased up at the same time, that's just a very healthy situation for our operators. Again, the footprint is a little different than some folks', but Southern California sure feels like a place that's set up to have the next couple of years be really strong. We've got it rated as an A- but improving. Last year, we had it as an A and stable. I think we're well-positioned in Southern California. There's not a single one of our assets that I have any particular concern about as it relates to exposure to new supply.

Drew Babin – Robert W. Baird

Great. That’s all for me. Thank you.

Alex Goldfarb – Sandler O'Neill

Good morning. The first question is on Houston. There was some recent commentary from speaking to folks down there that suggested softness in the market late in the year, and that the jobs expectation had been revised down. But from your comments, it doesn't sound like anything unusual is going on in Houston. Maybe it was just tough year-over-year comps, or was there in fact, some momentary pause in the market that caused a little concern for some folks?

Keith Oden– Camden Property Trust

I can give you my hypothesis on it. Let's answer the numbers question first. We didn't see that, other than normal seasonality. Fourth quarter is always a little weaker in Houston than the other three quarters, that's just the way it is. But if you put that aside, we didn't see anything in our numbers that would indicate there was any cause for concern or resetting of the ability to raise rents or get renewals. That's just what our experience is. Obviously, we heard that too, because we get some of the same phone calls you get. If you come to Houston and go on a guided tour to the areas that I've described as being the most impacted with new supply in downtown, midtown and the Galleria area, and if you're having a conversation with someone who happens to be a merchant builder, which, by the way, 99.2% of all the product in Houston that's being built right now is merchant builders, because Camden is the only public company that has any exposure to new construction in Houston, that's the preponderance of all the assets that are being leased up right now.

If you talk to a merchant builder who is currently in a lease-up in either downtown, midtown, or the Galleria area, I promise you they feel like they are getting their brains beat in because they're in the second or third year of 2 months plus free rent. That's certainly not what they anticipated. They're probably way off on their proforma numbers. They're under stress because ideally, they would have already had an exit at a better rent roll than they currently have. There's just a lot of doom and gloom if you talk to those guys. But if you go anywhere in the Houston metropolitan area other than the three areas I just described, you'll hear people have more of a tone like what you would hear from us, which is that yes, some of our communities are impacted by supply. We've been dealing with that for a while. We'll get through it. We always do. But by and large, our portfolio is really performing, and outperforming most of our competitors. I think it’s a selection bias on who you're talking to, and then that becomes the report, right? If those are the three areas you visited, the report sounds like there's a lot of weakness and maybe something that was unanticipated and you're about to have another slip back, but we don't see that.

Alex Goldfarb – Sandler O'Neill

Ok. So truly it’s just localized oversupply, and not anything market-wide?

Keith Oden– Camden Property Trust

Absolutely.

Alex Goldfarb – Sandler O'Neill

Ok. The second question is on expense control, especially on wages. Alex mentioned that last year came in low on self-insurance, and you don't expect that to repeat. Can you talk about what you're seeing from payroll? Given how low unemployment has been, how strong the labor market has been, and the rising minimum wage, it does seem like this is a pressure point. Just curious as to your thoughts, or whether this is a blessing if in fact it means that your residents are getting higher income. If you have to pay your leasing folks and maintenance people more, your residents are having more income, so the rent increase offsets that. Could you provide some color?

Ric Campo– Camden Property Trust

I think it's interesting when you think about wage pressure. When people consider the company they work for, wages are not the #1 reason why they stay at a company. It has to do with culture, a sense of belonging and a feeling of trust. Their job is important and it's more than a job. On the one hand, as Alex mentioned, we did make some adjustments for people that were clearly under-market because of wage pressure and low unemployment. But we don't have people leaving because of wages. Part of the equation is making sure that what we pay our employees is fair and market. I'll give you an example of that. I know for a lot of our competitors, their lowest paid employees would be groundskeepers and folks like that, and they're maybe paying minimum wage or maybe slightly higher than minimum wage. Our base pay for the lowest common denominator person would be $13.50 per hour. We have always pushed that wage up, so people are not at the bare minimum wage. I would think that companies who haven't been proactive in trying to take care of their employees, create great culture, and make sure their salary levels are competitive in the marketplace probably have more wage pressure than we do. We have it built into our run rate. Generally speaking, I do agree that higher wages are better for our customers. Our customers have changed dramatically over the last five or six years. At the beginning of the uptick in the market, we went from $60,000 median household income to about $90,000. That doesn't mean people who used to make $60,000 now make $90,000, but a lot of people who have moved into these properties have higher wages and higher incomes.

Alex Goldfarb – Sandler O'Neill

Ok, but it does sound like higher wages are something that's going to be consistent with us for at least the foreseeable future.

Ric Campo– Camden Property Trust

Absolutely, no question about it.

Alex Goldfarb – Sandler O'Neill

Thank you.

Rob Stevenson – Janney Montgomery Scott

Good morning. What's the expected stabilized yield on the six developments currently under construction, and how does that compare with expectations for the $200 million to $300 million that you expect to start this year?

Ric Campo– Camden Property Trust

Our yields are in the 6.0% to 6.5% range for the developments we have right now. The challenge of the future portfolio is that they probably come in on the lower end of that range because of cost pressure. Costs have gone up faster than rents. When you think about the current market today for an acquisition, it's 4.25% plus or minus across America. We're still getting a nice 200 to 250-basis point positive spread to our development pipeline, even though properties that we built two or three years ago were getting 7.0% to 7.5%, and now we're 6.0% to 6.5%.

Rob Stevenson – Janney Montgomery Scott

Ok. You provided some detailed guidance for both the revenue-enhancing capex and repositions as well as wholesale redevelopments. How many units are roughly in each of these buckets, and what are the expected stabilized returns of each?

Alex Jessett – Camden Property Trust

For repositions, we've got approximately 2,000 units, and we're looking at around a 10% return. When you go to redevelopments, you've got three projects that are in there, so you're talking about approximately 900 to 1,000 units. Those yields are closer to development-type yields.

Rob Stevenson – Janney Montgomery Scott

Ok. And then in terms of that, what's the opportunity set for you over the next couple of years? Are you limited in terms of the amount of internal Camden people and the availability of external Camden people to be able to do this? If you had additional capacity, would you do more on an annual basis, or is this basically what needs to be done this year in the portfolio and there really wouldn't be a lot of extra units to do even if you had capacity?

Keith Oden– Camden Property Trust

We have capacity to do substantially more than we're doing right now. I think at the peak, we were doing close to 6,000 or 7,000 units annually when we first started the process. The governor and the limitation on it is finding assets that are in a condition, both from an age standpoint and the submarket that they serve, such that we can underwrite them to get an incremental increase on our dollars of somewhere in the 8% to 10% range. That's the bucket that we're looking for. The best-case scenario are deals that are still in great submarkets, maybe even submarkets where there's new development that's occurring, but they're 12 to 15 years old. Externally, they're cared for in a way and architecturally they present themselves that to the uninitiated consumer, once you do a reposition and you've completely redone the interiors up to what today's market apartments delivered new construction look like, the average consumer can't tell the difference between our asset and our competitors' asset that happens to be brand new. Maybe you're not going to get the full 100% rental rate on the new construction, but you'll get something pretty close to it. If you can underwrite those types of assets on incremental investments, somewhere in the 8% to 10% range, that's the opportunity set. We go through a process that starts pretty organically at the district level and we look at recommendations, and the teams make their case and then we vet the numbers. If it passes muster with everybody around here, then we go forward. I wish we had another 5,000 in reposition right now, because it's still the best bet on the table from Camden's perspective.

Rob Stevenson – Janney Montgomery Scott

Thanks. Have a good weekend.

Wes Golladay – RBC Capital Markets

Hi everyone. Looking at wage growth, when does wage growth become a bigger part of the equation for rent growth? Is this something we have to wait for supply to slow?

Ric Campo– Camden Property Trust

Yes, I think so. We're absorbing enough in every market to absorb the supply that's coming on-line. But that supply does have an impact on being able to raise existing rents in existing portfolios. If you didn't have the supply and you had the same demand, you could raise your rents a whole lot more. When you look at the progression of revenue growth from 2010 to 2016, it was straight up and to the right, primarily because you didn't have a lot of supply. Now the supply has been pretty stable for the last couple of years and the demand has still been there, but that supply just takes your ability to raise rents beyond 2% or 3% or 4% off the table.

Wes Golladay – RBC Capital Markets

How is rent-to-income trending at year-end 2018 versus year-end 2017? Has it materially improved?

Keith Oden– Camden Property Trust

We're still about 18 times rent-to-income. We've been in that range for the last two or three years, which tells me that on average, our residents are getting wage increases as a group that have mirrored pretty much what our rental increases have been. We've been running 4% or 5% now for almost six years. The good news is that our resident population is managing to keep up from an income standpoint with what the underlying rental increases are. 18% of disposable income. I don't even think we would see any impact until that number got closer to 20%.

Wes Golladay – RBC Capital Markets

That’s all for me. Thanks for taking the questions.

Hardik Goel – Zelman & Associates

Thanks for taking my questions. Just a couple of clarifying questions. On the development yield, you mentioned 6.0% to 6.5%. What would that number be if it was unlevered cash flow, so including some allocation for property management expense and ongoing maintenance capex?

Ric Campo– Camden Property Trust

Generally, those are 50 basis points plus or minus in terms of costs if you're putting in those numbers.

Hardik Goel – Zelman & Associates

Got it. Just one more on the labor delays you mentioned. If you had to split those up by market, which markets are seeing more labor delays versus others? As you think about starts and look at your predevelopment pipeline, are you factoring that into which developments you'd choose to start? You have $600 million in predevelopment, and roughly $200 million to $300 million of starts in guidance.

Ric Campo– Camden Property Trust

We are definitely factoring in what we think the real development time frame is, and when we do a proforma. If you compare it to maybe four years ago when we didn't have this kind of issue, our developments on stick-built would have probably extended those times by four to six months. On high rises, maybe a 12-month period where we extended that construction period because of labor. I think most markets are pretty much sustained. Charlotte was a tough market. We don't have anything under construction there at this point. They had so much at the same time, so the labor pool there was more difficult. There's not one market that doesn't have a labor shortage. They all do. Depending upon where they are at peak in their cycle is when you have the most acute situation. It also depends on the size of the market. We are including what we think real, achievable construction and lease-up periods are in all of our new developments. That has been part of what's caused the decline in projected yields.

Hardik Goel – Zelman & Associates

Got it. Thanks. That's all for me.

Haendel St. Juste – Mizuho Securities

Good morning. Ric, how much pressure are you seeing specifically in your Texas and South Florida markets from homebuying? We've heard from the homebuilders that homebuying trends seem to be fairly strong in those regions, especially amongst the entry-level price points.

Ric Campo– Camden Property Trust

Overall, moving out to buy homes has been at 15% in our portfolio. In specific markets like Houston and South Florida, I don't think it's any higher or lower than it has been. The challenge with the idea that people can afford a home in Houston because the median price is so much lower than other places is, if you go into the urban core in Houston, the average home is the same price as San Diego. The challenge is that an affordable home is 45 to 90 minutes out of the central city. The other thing that people need to understand is that when you buy a home, it's not a financial decision. It's a demographic decision. We know that Millennials are getting married and having kids later in life and making those kinds of demographic decisions that drive them to want an ownership situation. A lot of Millennials want optionality. They want to be able to move around and not be burdened by a specific location or mortgage. I think that's one of the things that's driving the fact that homeownership rate hasn't spiked up in spite of low interest rates.

Keith Oden– Camden Property Trust

Just a note on that, in the fourth quarter of 2018, Houston had about 17% of our moveouts indicate it was to purchase a home. That's probably 1 or 2 percentage points higher than it's been in the last five years on average. Houston had a great year for new home sales. It set a record in terms of total units. Despite that, the multifamily market in Houston and our relevance stayed in the 94% to 95% occupied range, and we never dropped below 95%. It's pretty robust. You're right, what you're hearing from the builders is correct. They're selling a lot of homes in Houston, particularly starter homes in Houston. Southeast Florida is a different story. There were only 8.5% of our residents that moved out to purchase homes in the fourth quarter of 2018. And that, again, is probably 1 or 2 percentage points below the long-term trend. So probably not a big part of the story in either market, and part of it in Houston is we got 120,000 jobs trailing-12 months, and probably 25,000 to 30,000 in South Florida.

Haendel St. Juste – Mizuho Securities

That's helpful. Could you quantify what percentage of your Houston rent come from the three markets with heavier supply, and what the rent growth differential between those areas are versus your other Houston submarkets?

Ric Campo– Camden Property Trust

I don't have the exact numbers for those three submarkets, but I can give it to you broadly because we look at it between urban and suburban in all of our markets. All three of those submarkets would identify in our urban category bucket for Houston. The differential for the last year was clearly in favor of suburban product, and the differential was about 1.2% on revenue growth. So, it's not nothing. It's a meaningful number in terms of if you're in the urban area, that would be those three submarkets that are impacted versus suburban.

Haendel St. Juste – Mizuho Securities

Great. Thanks. And then lastly, I'm not sure if I missed it or not, what was the blended rent in January, and how does that compare to January of last year?

Keith Oden – Camden Property Trust

It's about 2.4% this year. I don't think we gave the blended from last year, but I can get that to you if you call me later. It's roughly flat on new leases and up 5% on renewals. If you do the math, that's about 2.4%.

Haendel St. Juste – Mizuho Securities

Got it. Thank you.

Daniel Bernstein – Capital One Securities

Good morning. I was also at NMHC and heard the bid-ask spread comments. What are your thoughts on where those bid-ask spreads are widening out, A assets, B suburban/urban. I'm trying to understand where you think the opportunities are going to be for you on the acquisition side.

Ric Campo– Camden Property Trust

The most overbid properties are value-add. Now that's a really crowded space. I think that the value-add space is definitely a space we're not interested in as much because of what we're trying to get. We think the sweet spot is the bid-ask spread differential between merchant builders who have owned their property now for a year or two, it's stabilized, they're not making their original returns, but they're definitely able to sell above what the original cost was. Given that they have IRR hurdles for them to make their promote, every day they wait, they get eroded from the profit on their promote. I think the bid-ask spread in that type of product because it's less traveled is you're buying newer properties, and you don't have a great story on the new properties. "Gee, I'm going to take this older property, value-add, I'm going to buy it for a really low cap rate. But I put $10,000 to $20,000 in it, and then all of a sudden I can convince myself perhaps that there's a story on being able to get a better yield there." Like I said, we're not in that space. We want to buy them below replacement cost and from specific merchant builders who don't manage their own properties and they're managed by third-party property managers. They tend to be managing to the middle as opposed to trying to maximize the utility of what their property really is because they have so many. I think that spread will compress, and the buyers will come towards the sellers a bit. I think sellers, because there's so many properties that must trade, are going to have to come to the buyers a little bit closer as opposed to meeting in the middle.

Daniel Bernstein – Capital One Securities

Thank you. That's helpful color. I appreciate you taking the question.

Ric Campo– Camden Property Trust

Thanks everybody, for being on the call. I'm sure we're going to see a lot of you over the next month or two at various conferences. Take care, and we'll talk to you when we see you. Thank you.