CAMDEN
Living Excellence

Second Quarter 2018 Earnings Call

August 3, 2018 - 10:00 AM CT

Kim Callahan – Camden Property Trust

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

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

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

Ric Campo – Camden Property Trust

Thanks Kim, and good morning. The on-hold music today was selected by Austin Wurschmidt and his team at Keybanc who won our contest last quarter. Austin picked up on the accelerated pace of M&A activity in the REIT industry in 2018, with eight deals totaling $56 billion in equity valuation either closed or pending. That's a lot of collaboration, which led to his theme of famous collaborations of musical variety. Thank you, Austin and your team. For this quarter's contest, be the first to email Kim Callahan four artists and/or bands featured on today's on-hold music and you will have the honor of selecting the music for our next earnings call.

Camden team members delivered solid second quarter earnings. We continue to create value though our developments and will be at the high end of our 2018 starts guidance. The acquisition environment is challenging with high demand driving higher prices and lower cap rates than we anticipated at the beginning of the year. Rising interest rates and moderate growth rates have not had any effect on buyer demand for multifamily. We held our acquisition guidance at $500 million for the year but have moved $300 million into the fourth quarter. We still believe that we'll hit our acquisitions target while maintaining discipline by the end of the year.

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

Keith Oden – Camden Property Trust

Thanks Ric. Today marks Camden's 100th quarterly earnings call and Ric and I have had the privilege to be on every one of them. A lot has changed in REIT world over the last 25 years, but one thing that has always been true is that good numbers make for good earnings calls. I'd like to acknowledge and thank our Camden team members for producing another quarter of good numbers for us to discuss on our call today.

We are indeed pleased with our results this quarter, which were better than our expectations for both the quarter and year-to-date. Overall conditions remain healthy across our portfolio. Sequential revenue growth was 1.8%, led by Corpus Christi at 6.4%, and more importantly in second place was DC Metro up 2.6%. Every other market posted a positive sequential result. This was a very routine quarter for Camden and with this in mind and the fact that we are at the end of earnings season, I'll keep my remarks brief to allow more time to discuss what interests ya'll about the quarter.

Starting with same store results, revenue growth was 3.2% for the quarter and 3.3% year-to-date. Second quarter revenue growth was led by Corpus Christi at 5.4%, Orlando at 5.2%, Phoenix at 4.7%, Tampa at 4.5%, Raleigh at 4.3% and Houston at 3.7%. As we expected, our two largest markets posted better revenue growth compared to the first quarter with Houston up 3.7% and DC Metro up 2.5%.

Rents on new leases and renewals continue to look encouraging versus our original guidance. In the second quarter new leases were up 3.3% and renewals were up 5.9%. That produced a blended growth rate of 4.5% versus 3.3% in 2Q17 and 2.7% last quarter. July prelims are running 4.8% for new leases and 5.6% for renewals, for a blended growth rate of 5.2%. As we expected, new lease pricing has seen good improvement during our peak leasing season. August/September renewal offers are going out at a 6.1% average increase. Our occupancy rate averaged 95.8% in the second quarter versus 95.4% in the first quarter and was above the 95.3% from the second quarter of 2017. July's occupancy rate reached 96%, slightly better than our 95.7% last July. Our net turnover rate continues to see all-time lows at 49% for the second quarter and 44% year-to-date. The lower turnover rate, in tandem with a historically low number of move-outs to purchase homes, continues to contribute to our strong and somewhat better than expected operating results.

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

Alex Jessett – Camden Property Trust

Thanks Keith. Before I move on to our financial results and guidance, a brief update on our recent real estate activities. During the second quarter of 2018 we began construction on Camden Lake Eola, a $120 million, 360-unit, 13-story building in the Lake Eola submarket of Orlando, FL. We also began leasing at our Camden McGowen Station development in Houston, TX, our Camden North End development in Phoenix, AZ and our Camden Washingtonian development in Gaithersburg, MD. In the third quarter we began construction on Camden Buckhead, in Atlanta, GA. This $160 million, 365-unit development will be the second phase of our existing Camden Paces community and will consist of one eight and one nine-story concrete building. Previous cost estimates in our supplement for this development were based upon the construction of one four-story wood frame wrap building. Due to this project's irreplaceable location in the heart of Buckhead and the success of our Phase I Camden Paces high-rise, we have made the decision to significantly enhance this development including moving to two Type 1 concrete high-rise structures.

Turning to financial results, last night we reported funds from operations for the second quarter of 2018 of $116.1 million or $1.19 per share, exceeding the midpoint of our guidance range by $0.01 per share. Our $0.01 per share outperformance for the second quarter was primarily due to:

- Approximately ½ cent in higher same store revenue and ½ cent in higher non-same store net operating income primarily driven by better than expected results from both our recent acquisitions and development communities.
- In the aggregate, our same store operating expenses were in-line with expectations, although property taxes were $1 million higher than anticipated entirely due to Atlanta property tax valuations. This negative tax variance was entirely offset by lower than anticipated expenses in almost all other categories, particularly lower repair and maintenance expense and lower levels of self-insured employee healthcare costs.

Turning to property taxes, Fulton County, GA, which includes Atlanta, significantly raised their valuations for residential assets. The valuation increase for our entire Atlanta metro portfolio was approximately 28%, with a 41% increase for our Fulton County communities. This Atlanta valuation increase was not anticipated and will result in $2 million of additional property tax expense in 2018. As is our policy, we accrued six months of this increase, or $1 million in the second quarter as a catchup. The remaining $1 million will be booked over the remainder of 2018. We have filed appeals on these valuation increases, however, due to the amount of property owners in Atlanta that will be contesting their valuations this year, it is unlikely we will get any settlements before the end of 2018. If we are successful with our appeals, we will book the refunds as an offset to property tax expense at the time in which the refund is received. We are now anticipating full-year property taxes for our same store portfolio to increase approximately 6%. We believe that this unexpected property tax increase in Atlanta will be entirely offset by actual and future anticipated cost savings in our other operating expense categories, and have therefore left the midpoint of our same store expense guidance unchanged at 3.5%.

We have updated and revised our 2018 full-year same store revenue and FFO guidance based upon our year-to-date operating performance and our expectations for the remainder of the year. Our same store revenue performance has been better than expected for the first six months of the year driven primarily by higher levels of occupancy. Based upon our trends and expectations for the remainder of the year, we are increasing the midpoint of our full-year revenue growth from 3.0% to 3.15%. This increased revenue guidance and the maintenance of our expense guidance results in an increase to our 2018 same store NOI guidance from 2.7% to 3.0%.

Last night we also increased the midpoint of our full-year 2018 FFO guidance by $0.02 from $4.72 per share to $4.74 per share. This $0.02 per share increase is the result of:

- Our anticipated 30 basis point or 1½ cent increase in 2018 same store operating results. ½ cent of this increase occurred in the second quarter with the remainder anticipated over the third and fourth quarters; and,
- 1½ cents of additional non-same store outperformance. ½ cent of this increase also occurred in the second quarter with the remainder anticipated over the third and fourth quarters.

This $0.03 aggregate increase is partially offset by $0.01 from delayed acquisition timing. Our current guidance now assumes approximately $300 million of additional acquisitions all in the fourth quarter. If we do not complete any future acquisitions in 2018, the net result would be a further $0.01 per share reduction.

Last night we also provided earnings guidance for the third quarter of 2018. We expect FFO per share for the third quarter to be within the range of $1.17 to $1.21. The midpoint of $1.19 is in-line with our second quarter results as expected sequential increases in revenue are offset by the typical seasonality of our operating expenses.

Our balance sheet is strong with net debt to EBITDA at 4 times, a total fixed charge coverage ratio at 5.5 times, secured debt to gross real estate assets at 10%, 81% of our assets unencumbered and 92% of our debt at fixed rates. We ended the quarter with no balances outstanding on our unsecured lines of credit and $64 million of cash on-hand. We have $633 million of developments currently under construction, with $283 million remaining to fund over the next two years.

Later in 2018 we will repay at maturity $175 million of secured floating rate debt with a current interest rate of 2.9% and will repay at par $205 million of secured fixed rate debt with an interest rate of approximately 5.8%. We currently anticipate issuing $400 million of unsecured debt late in 2018 at a rate of approximately 3.8%. In anticipation of this offering we have entered into $400 million of forward-starting swaps effectively locking in the 10-year treasury at 2.6%.

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

Keith Oden – Camden Property Trust

Before we take our first question, we have a winner in the contest. John Kim of BMO Capital Markets was the first to get four correct artists. We look forward to working with you on next quarter's music. Now we'll open the call up to questions.

Michael Griffin – Citigroup

For the merchant-build product in Houston, are you still seeing concessions or has vacancy dissipated and the leasing environment meaningfully improved?

Ric Campo – Camden Property Trust

On the merchant-build product we continue to see concessions, and it's very typical in this kind of environment. The market is very bifurcated from that perspective. We are 30% leased at Camden McGowen Station after opening in the first quarter. Our velocity is very good, but the concession environment is basically two months free rent in that product. When you think about our Houston portfolio overall with 9,000 plus or minus apartment homes, our operating portfolio is doing really well from a revenue growth perspective. Merchant builders are very typical. When they start out with an empty building they focus on pushing the occupancy as fast and as hard as they can. Their view is that free rent gets you there, and it's a very typical thing that is used in the marketplace. It hasn't negatively impacted the overall market, just the development market. Once the projects are leased up, the concessions hopefully burn off. Given the supply situation of only 7,000 units being delivered this year and then less next year, we expect the free rent to dissipate by the end of this year or maybe the middle of next year in new development properties.

Michael Griffin – Citigroup

Great, thanks. One other question. I see that the estimated cost of the Buckhead deal increased by $55 million. What's driving that, and how does it impact the expected stabilized yield? When would you expect that to start?

Alex Jessett – Camden Property Trust

As I mentioned in my prepared remarks, the previous cost estimates for that development were based upon a 4-story wood frame wrap building. Due to its location in Buckhead and the success of our adjacent Camden Paces high-rise, we made the decision to significantly enhance that development, including moving to two Type 1 concrete high-rise structures.

Michael Griffin – Citigroup

Great. Thanks.

Shirley Wu – Bank of America/Merrill Lynch

I wanted to touch on Houston a bit more. For the back half of 2018, what do you think will be the trajectory for occupancy comps this year? Also, what's the range of your occupancy losses built into the guidance for the second half?

Keith Oden – Camden Property Trust

I didn't get the second part of that question, Shirley. Let me address the first part, which is on Houston and the trajectory. We will have some very difficult occupancy comps in Houston in the fourth quarter. As some of you may recall, we actually hit 99% occupied at one point in the fourth quarter last year as a result of the aftermath from Hurricane Harvey, and obviously we'll be nowhere close to that. While we continue to make good gains, our new leases have ticked up since the beginning of the year, and we're up about 1% in the second quarter. Our renewals are running 5% to 6% in Houston. We do expect to see the new lease rate continue to tick up from now throughout the end of the year, but offsetting that will be the fact that we'll be nowhere near 99% occupied. I think we closed out July at about 95.5% occupied in Houston, and that's a more typical occupancy rate. We're likely to see something more akin to that as we roll out through the end of the year and then we'll continue to get better results on new leases and renewals. I didn't get the second part of your question.

Shirley Wu – Bank of America/Merrill Lynch

In terms of occupancy losses, is that built into your guidance? And is that mostly focused on 4Q like you were saying or is it in 3Q as well?

Keith Oden – Camden Property Trust

It's not occupancy losses but occupancy relative to our same store results last year. It's going to be much less, probably about 350 basis points plus or minus less than what our occupancy was in the fourth quarter of last year. We're not projecting occupancy losses from where we are today throughout the end of the year. We're going to have a really tough comp in late third quarter into the fourth quarter of 2018.

Shirley Wu – Bank of America/Merrill Lynch

Got it. Thanks for the color. One more question. For new leases and renewals, can I get the 2Q numbers for your portfolio across your markets?

Keith Oden – Camden Property Trust

For 2Q, new leases were 3.3%, renewals 5.9% and the blended rate is 4.5%.

Shirley Wu – Bank of America/Merrill Lynch

Can I have a market breakout?

Keith Oden – Camden Property Trust

Yes, but we operate in 15 markets, so we'll give you that off-line. We don't need to get into that level of detail on the call but can get them to you off-line.

Shirley Wu – Bank of America/Merrill Lynch

Thank you.

Austin Wurschmidt – Keybanc Capital Markets

Good morning. Could you give a sense on how 2019 supply is shaping up, as one of your peers had indicated supply growth will be down in the high teens next year? Are you seeing a similar decline?

Keith Oden – Camden Property Trust

Our two data providers are Witten Advisors and RealPage. When we look at completions for 2018 and 2019, honestly there's not a nickel's worth of difference in their forecasts. Witten is at 138,000 deliveries for 2018 dropping to 136,000 in 2019, and I'm talking only in Camden's markets, not nationally. RealPage's number is at 142,000 in 2018 and drops to 140,000 in 2019. So you're less than 1% difference between the two data providers on what we think completions will be between 2018 and 2019. Both of them, at least in our conversations with them, have attempted to capture what has been a phenomenon going on for two years now, which is the delay in getting completions to the finish line. They've made their best guess at things that may shift between projected 2018 completions that roll over into 2019. We'll see how good they were able to forecast that, but it's certainly been a trend for the last two years. My guess is it's going to continue, and they've made their best guess at factoring in delays for 2018 and 2019. For our purposes, from a standpoint of planning, we're assuming 2018 and 2019 are roughly equivalent across our platform.

Ric Campo – Camden Property Trust

With the exception of Houston, obviously. That's a different animal given the nature of Houston, where supply is just falling off the edge of the earth in 2018 and 2019.

Keith Oden – Camden Property Trust

Witten is forecasting 7,000 completions in 2018 and that drops to about 6,000 in 2019 for Houston. Historically, those are crazy low numbers for Houston.

Austin Wurschmidt – Keybanc Capital Markets

I appreciate the detail. And then separately, you talked about the competitiveness in the transaction market. It sounds like you're pretty comfortable with your acquisitions guidance. What gives you that level of confidence, and do you have anything under contract today?

Ric Campo – Camden Property Trust

What gives us the confidence is that we're working on lots of transactions. And while we don't really talk about what we have under contract or not at this point in the game, we feel that we'll be able to hit that target by the end of the year. It was somewhat surprising to us that with the 10-year treasury hitting 3% and prices being where they are that there wasn't less frothiness in the market. Like I said in my comments, that hasn't been the case. People are lowering their terminal IRR to get to where they're going.

The product we're looking for is newer construction below replacement cost with some embedded concessions, so we can grow those cash flows going forward. It's just harder to find. There's still a massive bid for value-add. The good news for us is that we're not really looking at value-add. We're looking for a different product. There's still a huge bid for multifamily, and I think part of it stems from the 10-year treasury at 3% or 3.5%. We have great growth going on in the country and you have inflation ticking up some. Multifamily reprices pretty much every day and on average 8% to 10% of the leases roll over every month. Some investors are banking on higher inflation, and therefore, cash flow is growing faster than cap rates are rising, if you do have longer-term interest rates rise. That's just getting them over the hump on multifamily as well as hotels. It's the best inflation hedge as long as you're growing the economy and not having stagflation and it doesn't look like that's on the horizon.

Austin Wurschmidt – Keybanc Capital Markets

Great, thanks for the time.

Alex Goldfarb – Sandler O'Neill

Good morning. Two questions. Regarding California, it's about 8% of your portfolio. If Costa Hawkins is repealed, do you think any of your markets will face rent control measures, or do you feel pretty good with where your communities are right now and understanding the issues, especially as it revolves around vacancy being controlled?

Keith Oden – Camden Property Trust

Two comments. There's a lot of attention on the state level initiative, and we certainly are participating in fighting the good fight on the repeal efforts at the state level. If you put a gun at my head, I'd probably be thinking that the state level initiative may actually get through. But that's not really where the game is won or lost on this issue. It's going to be at the municipal level, which you're correct to point out. You've got different dynamics in San Diego, Orange County, and Inland Empire than you do in Northern California and LA County.

There was a report by one of the good analyst firms, and I'm not going to mention the name, but it's pretty well done and stratifies all of the REIT holdings in California by municipality and assigns a high risk to low risk value. In our portfolio, only about 10% of Camden's assets fell into what would be called a high-risk bucket for municipal level adoption of some kind of rent-controlled measure. 11% of our NOI and roughly 10% of that is in the high-risk bucket. I think our specific exposure is pretty limited to Costa Hawkins but obviously it's a huge thing and there's a lot of attention around it. We're participating with all the other REITs and NAREIT and NMHC. There's a lot of energy on both sides of this issue in California, and it will be interesting to see how it plays out.

Alex Goldfarb – Sandler O'Neill

I guess it makes you happy that you're Texas-based. The second question is on Denver. Suddenly it's become everyone's popular market. You have been there a long time, you never left. But recently I haven't seen much on the investment side. What are your thoughts on Denver? Overall, I think your footprint is much broader than just Denver proper, and you guys extend out. Are you thinking about the market any differently in how you invest there, meaning maybe concentrate it more infill, or do you like the market as a broad market to invest in?

Ric Campo – Camden Property Trust

We like the market as a broad market to invest in. If you look at what we've been doing with our developments, they have been transit-oriented. We currently have a development underway in RiNo, which is the River North area adjacent to downtown. The challenge we've seen in trying to get more urban in Denver is that it hurts my head to pay sub-4% cap rates for a new development there, and that's what they're trading at today. We like where we are in Denver. We have a nice balance between new transit-oriented developments with some urban and suburban assets. We have a balance between A and B properties, urban and suburban. Denver is definitely on everyone's list of getting into. We've liked it for a long time for lots of reasons, and it continues to be a good market.

Alex Goldfarb – Sandler O'Neill

Thanks.

Rob Stevenson – Janney Montgomery Scott

Beyond the Buckhead development, how many of the other pipeline communities are you planning to start in the second half of this year? At this point, where do you think stabilized returns are for the current pipeline and on what you would start?

Ric Campo – Camden Property Trust

The starts we've announced include the Buckhead development. We might start one more, but it would be at the end of this year or beginning of next year. Our pipeline, including the starts we have announced, is $280 million which is really close to our $300 million guidance. In terms of development yields, they have clearly come down from some pretty lofty levels. Yields today, instead of 7% and some change are 6% and some change. Our construction costs continue to rise 4%-8% to maybe 10% in some markets, and rents are going up 3%. That definitely has compressed yields. On the other hand, we have a 150 to 200 basis point positive spread between our going-in yields versus what we can buy going-in yields from an acquisition perspective. We still have a nice spread for taking development risk.

Rob Stevenson – Janney Montgomery Scott

Alex, given your comments about property taxes, can you talk about how successful Camden has been over the last three years or so in terms of winning property tax appeals? Do you contest everything and so therefore your appeal win rate is low? Are you making conscious efforts to appeal the egregious ones? And when you do appeal, what's your winning percentage?

Alex Jessett – Camden Property Trust

Yes, absolutely. We don't appeal everything, but we do appeal a lot. In getting some form of reduction, we're about 70% effective, so it's a pretty good winning rate.

Rob Stevenson – Janney Montgomery Scott

What’s the magnitude in that 70%? Is it getting a little or is it a lot? How significant is that negotiation on the movement between what you get assessed at and what you wind up paying on an annual basis?

Alex Jessett – Camden Property Trust

We set target rates for every single community we own. When we say 70%, we're shooting to get to that target rate. It’s never perfect, but we get pretty close to it.

Rob Stevenson – Janney Montgomery Scott

Ok, thanks.

John Kim – BMO Capital Markets

I'm still riding the emotional high from winning your contest. Thank you so much.

Keith Oden – Camden Property Trust

You'll get over it.

John Kim – BMO Capital Markets

It made my week for sure. The 4.5% blended rate you got in the second quarter is trending higher in July. Do you think 5.2% is something that you can achieve for the rest of the quarter? And what are you assuming as far as rental lease growth to achieve the midpoint of your same store revenue guidance?

Keith Oden – Camden Property Trust

The July numbers will probably end up being the high watermark for the year because you have markets like Dallas, Austin and South Florida that are trailing away as we go through the year. Then you have Houston, which is going to be a really interesting comp in the third and fourth quarter. My guess is the 5.2% in July probably ends up being the high watermark. Our guidance right now for the year is 3.15% on revenue growth. The implication of that is we're about 3% plus or minus in the back half of the year. That still seems about right to me.

John Kim – BMO Capital Markets

Alex mentioned the $400 million of unsecured debt that you expect to raise. It sounds like part of that is to repay the debt maturing next year. As for the remaining $644 million expiring, how do you expect to refinance that?

Alex Jessett – Camden Property Trust

We've got a lot of options on how we're going to do that. We're looking at the unsecured market and various 10-years. We always have the ability to do dispositions if it's appropriate as well. We're still working through our strategy on exactly how we intend to refinance the rest of that debt.

John Kim – BMO Capital Markets

Can you give pricing levels on secured debt versus unsecured?

Alex Jessett – Camden Property Trust

The easiest way to think about it is if you don't lock in your rate, which we already have, the spread for us on a 10-year unsecured is somewhere around 110 basis points. If you went to Fannie Mae, they're going to be around a 200 basis point spread. LifeCos today are actually your best option out there. LifeCos are trying to build business, and you can probably get a LifeCo deal done at about 120 basis points over.

Ric Campo – Camden Property Trust

One thing I will mention is even though we can get secured debt, we are an unsecured borrower. Unless there's something really wacky going on in the unsecured market, we're going to stay an unsecured borrower. One of the things that happens with this refinance is that we get rid of a lot of secured debt that we put in place during the financial crisis. And if you remember how we did that secured debt, we went out and borrowed money from Fannie and Freddie and bought our unsecured bonds back at a discount. And now with where we are in the cycle, we're going to recycle that capital with new unsecured debt that will make our credit metrics even better by getting rid of a lot of secured debt that we have on our balance sheet at this point.

John Kim – BMO Capital Markets

Thanks.

Drew Babin – Robert W. Baird

Good morning. I wanted to touch on Southern California briefly. While revenue growth is still strong there, it looked like it decelerated a bit sequentially in both the LA/Orange County, San Diego/Inland Empire markets. Is that the result of pockets of supply? Is it a result of a tangential effect of more urban supply? What are the dynamics driving that?

Keith Oden – Camden Property Trust

In LA/Orange County, we're going to end up getting around 60,000 jobs this year, and that's against about 14,000 new apartments. That's relatively in-line, a little bit of pressure implied. If you go out into 2019 the forecast drops to about 40,000 jobs. But unfortunately, the supply maintains pretty constant at about 14,000 additional apartments. It's just the ramp of supply that's finally getting to the marketplace in Los Angeles. A similar story in Orange County for 2018. It looks like we'll get about 30,000 jobs, and we will have to absorb about 7,000 apartments in 2018. The math is similar for 2019. From my perspective, our portfolio is doing well, and we're pleased with the performance. It's outperforming to what our original plan was and some of that has to do with our location not being impacted by the high levels of deliveries that are going on across the Southern California platform.

Drew Babin – Robert W. Baird

Great, that helps. One more question on the concept of replacement cost. A bull would say you're buying assets at discounts to replacement cost. Replacement cost is probably only going to trend up with tariffs and more inflation on materials, labor costs, things like that. A bear might say that replacement cost is artificially elevated right now, fluctuates over time, and is maybe even more volatile than rents over a long period of time. Could you give both sides of the argument and why you look at that with regards to acquisition opportunities as a benchmark, since it is a bit of a moving target?

Ric Campo – Camden Property Trust

I agree with what you just said, for sure. The way we look at it in this prism is that we have a robust development business. We know what it will cost us to build. If I can buy at a lower price than what it costs me to build, that makes a lot of sense to me. On the flip side, if you buy above replacement cost, I look at that and say, "In Atlanta, I know exactly what it costs to build our second phase of Buckhead. Why would I buy a property across the street from the one I can build, when I can build it at a cheaper price per door and per square foot than the one people are buying across the street?" To me it's more about our ability to develop and understand those costs. And I get why, at some point, the argument on the bull or the bear side will rule. From our perspective, if we're going to commit capital, I'd rather develop my own properties than buy properties that are more costly than ones I can develop.

Drew Babin – Robert W. Baird

Thank you.

Rich Anderson – Mizuho Securities

Good morning. I've been covering your stock for over 20 years and I haven't won squat. I don't know what's going on here. One thing I do remember was that a signal of a healthy multifamily market was when new rent growth exceeded renewal rent growth. That hasn't really happened in a while. I'm wondering if there is a systemic reason why it won't happen again. Do you think there's a chance you could see your new rent growth cross with your renewals at some point in the next couple of years?

Keith Oden – Camden Property Trust

I think it's certainly possible. Some of it has to do with when you look at new leases and renewal rents. A big part is what happened 12 months ago when that person signed a lease. If you're in an increasing market that's constantly raising rents, then it doesn't surprise me greatly that you would continue to see renewal rents above new leases. The odd part about where we have been for the last 7 or 8 years is that you've been in a constantly increasing rent market, although the second derivative has moved around a bit on the rate of growth. But the fact is that rents have been growing for 8 or 9 straight years, which is unusual. When you think about the experience we had in Houston with the downturn in the oil markets and rents actually going negative, there's no question that we were renewing rents in many cases below what we were offering new rents at. At some point you're just trying to maintain occupancy. It depends a bit on where you are in the cycle, but as this cycle unfolds and moves into the next cycle, my guess is you'll see that happen again.

Rich Anderson – Mizuho Securities

But I am remembering correctly, right? That is a fair way to look at it?

Keith Oden – Camden Property Trust

Yes, it is.

Rich Anderson – Mizuho Securities

And then secondly, on the topic of Denver, I heard what you said Ric. It's interesting that suddenly, many of your peers are very optimistic about a market that's not currently that great today. Is there something incremental that is a common knit to all of the views that are coming from people like EQR and AvalonBay taking a look at Denver, or is it just the basic fundamental stuff that you described?

Ric Campo – Camden Property Trust

I can't really get inside their investment thesis other than the broad one. Companies have been pounding the table forever that Coastal is where everything is, and rents never go down in San Francisco and New York. We've always argued that we want to be in high growth markets, both population and job growth, that over the long term will allow rents and the market to grow. What happens as a byproduct of that growth is that municipalities allow the development. Then the argument is that markets overshoot from a development perspective and the supply-constrained markets don't, right? We know that just isn't true anymore, or at least it's more evidenced today that it's not as true as it has been.

I think if I were a company that had those kind of market dynamics, I'd look for growth, and I'd look for markets that have really good long-term dynamics, and I think Denver has that. When you think about cities that are classified as having high propensity for Millennials, Denver has a lot of those really high-value propositions. It's got recreation and the mountains. There are a lot of good things going on in Denver. Those things are not going to change given the dynamic of our renter base. It doesn't surprise me to look at that market and say, "If I'm going to buy a non-coastal market, it might be Denver, it might be South Florida." You don't have to totally abandon the Coastal low supply thesis with a couple of markets.

Rich Anderson – Mizuho Securities

So not rolling the dice on HQ2 you're saying?

Ric Campo – Camden Property Trust

I don't think they're rolling the dice. HQ2 is a wildcard, and I don't think anyone is throwing the dice on that.

Rich Anderson – Mizuho Securities

I'm being officious. Thanks very much.

John Guinee – Stifel, Nicolaus & Co

Just a curiosity question. At Camden Buckhead, you had a total development cost last quarter as a wrap product of about $277,000 per unit, and then going with Type 1 vertical, you're up to about $438,000 per unit. Is there really a $160,000 per unit increase when you go from wrap to concrete?

Ric Campo – Camden Property Trust

Well, there's two pieces. The answer is, yes, there's a big differential between wrap and concrete. No question about it. And then second, when you do go to concrete in a high-rise product, you improve the interior quality of the property and the amenity space as well. If you're trying to get premium rent, you're going to have to put in premium finishes, more than you would do in a wrap product. Part of it is the differential between wrap and high-rise, then the amenity packages and finishes. And then third, the wrap product was a placeholder. It's probably not a great comp because construction costs have continued to rise. We have not tried to tweak our future development numbers very much. The number that was put in for the wrap product was put in a couple of years ago. You've definitely had some construction price creep in that number, so that base number was probably low to start with.

John Guinee – Stifel, Nicolaus & Co

And then second, do you control land via options, etc.? Can you give people a sense for what you might have that doesn't show up in the supplemental?

Ric Campo – Camden Property Trust

We try to control land for a long period of time, but it's very hard to do in this current environment. At this point, we are working on transactions, but what you see is what you get in our supplemental information right now.

<u>John Guinee – Stifel, Nicolaus & Co</u>

Great, thank you.

<u>Wes Golladay – RBC Capital Markets</u>

Good morning, everyone. Can we go back to the Fulton County tax increase? Were you entering this year well below your target rate? Did they overshoot, or is it just a case where a municipality is trying to plug their budget using commercial real estate?

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

There's actually a lot of really interesting articles online where you can read about this. But effectively what happened is the State of Georgia has sued Fulton County, alleging that their valuations are under market. This is Fulton County's way of responding to it. I will tell you, this is not a Camden-unique issue. In fact, there are over 40,000 appeals of property tax valuations in Fulton County. That's over 8% of all property owners. There's actually an 8% threshold where if you go over 8% of appeals, the county has to get the courts to certify their tax register. This is an across-the-board Fulton County issue. We believe they've clearly overshot. We filed all of our appeals but once again, if you have 40,000 appeals that they have to work through, it's going be highly unlikely that we're going to get any resolution until 2019.

<u>Wes Golladay – RBC Capital Markets</u>

And then looking at the acquisition guidance being pushed through the fourth quarter, is that just a function of developments taking longer to build, maybe getting a bit of a delivery delay, pushing the timing of a lease-up acquisition later? Or is it just trying to figure out which one you want to buy?

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

It's more of trying to figure out which one we want to buy. We're going through more and more transactions trying to find the right one, and it's not so much a delay in deliveries.

<u>Wes Golladay – RBC Capital Markets</u>

And really quick, a follow-up to that. How many people do you run into for competition when you're trying to buy lease-ups? I get that value-add and core may have a lot of competition but when you look at the lease-up, is it just a bid-ask spread, or is it a lot of people chasing these?

Ric Campo – Camden Property Trust

I think it's both. On the value-add, you may have 20-30 bidders. In a core below replacement cost type of asset, we might have 10-15. Trust me, there's still a lot of competition. It's just less competition in that space than there is in value-add.

Wes Golladay – RBC Capital Markets

Thanks a lot.

Ric Campo – Camden Property Trust

We appreciate your time today. Have a great rest of your summer, and we'll speak to you in the fall. Thank you.

Edited for readability.