Second Quarter 2019 Earnings Call

July 26, 2019 - 10:00 AM CT

Kim Callahan – Camden Property Trust

Good morning, and thank you for joining Camden's second quarter 2019 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 2019 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, Executive Vice Chairman; 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, then rejoin 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. Good morning. Our hold music today was courtesy of Dire Straits, and although our cost of capital has decreased over the years, we still don't get our "Money for Nothing"; however, our unique culture allows our associates to experience, "That ain't working, that's the way you do it."

Thanks to our Camden team members for improving the lives of our employees, customers, and shareholders one experience at a time.

The multifamily business continues to be strong. Market fundamentals remain good as new supply gets absorbed in all our markets. During the first half of 2019, we completed over $1 billion dollars of debt and equity transactions designed to strengthen our balance sheet and give us maximum financial flexibility in this part of the real estate cycle. We accomplished this funding and have been able to increase FFO guidance despite having more cash earning low rates than originally anticipated. FFO growth per share for the quarter and the year increased 7.6% and 6.8%, respectively.

We added to our development pipeline and completed the acquisition of Camden Rainey Street in Austin TX during the quarter. We are on track to meet or exceed our original acquisition target of $300M for 2019 despite a very difficult acquisition environment.

I would like to take this opportunity to congratulate Malcolm Stewart on his promotion to President of Camden. Malcolm will continue his role as Chief Operating Officer, and Keith will continue his responsibilities as Executive Vice Chairman. These moves are part of our long-term succession planning initiative and create position space for other senior executives in the future.

I will now turn the call over to our new Executive Vice Chairman Keith Oden.

Keith Oden – Camden Property Trust

Thanks Ric. Regarding my new title, I'd like to address the biggest concern that's been expressed so far. Yes, I will continue to co-host Camden's annual happy hour at the summer NAREIT meeting. Now back to business.

Our second quarter revenue results were in line with our increased guidance, which sets us up for continued strong results for the balance of the year. Overall same store revenues were up 3.4% for the quarter and up 1.5% sequentially. Second quarter revenue growth in our top four markets were Phoenix at 5.7%, Denver at 5.1%, Los Angeles/Orange County at 4.8%, and Atlanta at 4.6%. As expected, our weakest markets for the quarter were South Florida, Charlotte, and Houston, with revenue growth in the 1% to 2% range.

Regarding rents on new leases and renewals, second quarter new leases were up 4.1% and renewals were up 5.6% for a blended increase of 4.9%. The second quarter 2019 blended rate of 4.9% was a 30-basis point improvement from the second quarter last year of 4.6%. July preliminaries are at a 4.1% increase on new leases and 5.3% on renewals for a blended growth rate of 4.7%. As expected, we have seen steady improvement in our new lease rates from January through June, and as is normal the new lease pricing will begin to taper off as we approach the end of our spring/summer peak leasing season. Our August and September renewal offers continue to reflect a healthy rental environment and are being sent out at an average increase of 5.7%.

Our qualified traffic remains strong and supportive of our above-trend occupancy levels across all our markets. We averaged a strong 96.1% occupancy in the second quarter versus 95.8% occupancy in the first quarter of 2019, and 95.7% in the second quarter last year. July occupancy is trending 96.3% versus 96.0% last year. Our turnover rates continue to run at historically low rates, with net turnover in the second quarter at 46% versus 49% last year.

During the quarter our move-outs to home purchase remained low at 14.3% versus 14.0% in the first quarter, with both quarters well below the 14.8% move-out rate for full-year 2018. It appears that the rising price of starter homes will continue to put a damper on homeownership.

I'll turn the call over to Alex Jessett.

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 2019 we purchased for $120 million, Camden Rainey Street, a newly-constructed 326-unit, 8-story building located in downtown Austin, TX; we began construction on Camden Cypress Creek II, a 234-unit joint venture in Houston, TX; and, we stabilized ahead of schedule our Camden Washingtonian development in Gaithersburg, MD generating a 6.5% stabilized yield. We also purchased approximately four acres of land in the NoDa neighborhood of Charlotte for the future development of approximately 400 apartment homes, and purchased approximately 12 acres of land in Tempe, AZ also for the future development of approximately 400 apartment homes.

On the financing side, in mid-June we completed a $600 million, 10-year senior unsecured bond offering with an effective average interest rate of approximately 3.67% after giving effect to the settlement of in-place interest rate swaps and deducting underwriter discounts and other estimated expenses of the offering. As a result of these in-place interest rate swaps, we will recognize interest expense at 3.84% for the first seven years of the note and will recognize interest expense at 3.28% thereafter.

Turning to financial results, last night we reported funds from operations for the second quarter of 2019 of $128.6 million or $1.28 per share, exceeding the midpoint of our guidance range by $0.02.

Our $0.02 per share outperformance for the second quarter resulted primarily from:

- approximately $0.01 in higher same store net operating income resulting from lower levels of self-insured employee health care costs, lower property taxes, and lower other property expenses that resulted from general cost control measures;
- approximately $0.005 in better than anticipated results from our non-same store and development communities; and,
- approximately $0.005 in a combination of lower overhead expenses and higher fee and joint venture income.

Last night, based upon our year-to-date operating performance and our expectations for the remainder of the year, we also updated and revised our 2019 full-year same store guidance. Because of our better than expected second quarter same store expense performance and our anticipation of lower property taxes in the back half of the year, we decreased the midpoint of our full-year expense growth from 3.35% to 2.75%. These anticipated property tax savings in the back half of the year are primarily being driven by Atlanta and Houston where we have both received favorable current year tax valuations and had success with prior year appeals. As a result, we are now anticipating full-year property taxes for our same store portfolio to increase at just under 3%, approximately 100 basis points inside of our original budget. The result of this decreased expense guidance is a 35-basis point increase to the midpoint of our 2019 same store NOI guidance, from 3.4% to 3.75%.

Last night we also increased the midpoint of our full-year 2019 FFO guidance by $0.02 per share from $5.07 to $5.09. This $0.02 per share increase results from:

- Our anticipated 35-basis point or $0.02 increase in 2019 same store operating results. $0.01 of this increase occurred in the second quarter with the remainder anticipated over the third and fourth quarters; and,
- Approximately $0.01 from our second quarter outperformance not associated with same store results.

This $0.03 aggregate increase in FFO is partially offset by the approximate $0.01 combined impact of our $200 million larger than anticipated June bond issuance and the timing of various real estate transactions.

Last night we also provided earnings guidance for the third quarter of 2019. We expect FFO per share for the third quarter to be within the range of $1.26 to $1.30. The midpoint of $1.28 is in line with our second quarter results as expected sequential increases in revenue are offset by the typical seasonality of our operating expenses, and the incremental contributions from our development and acquisition communities are offset by additional interest expense resulting from our June bond offering.

Our balance sheet remains strong with net debt-to-EBITDA at 3.9 times and a total fixed charge coverage ratio at 6.4 times. We ended the quarter with no balances outstanding on our $900 million unsecured line of credit and $150 million of cash-on-hand. 98% of our debt is unsecured and 99% of our assets are unencumbered. We have $577 million of on-balance sheet developments currently under construction, with $311 million remaining to fund over the next two and a half years.

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

<u>Nick Joseph– Citigroup</u>

Thanks. In looking at your weighted average monthly revenue per occupied home, it looks to be about 40 basis points below the rental rate growth. What's the drag from other revenue causing that, and how do you expect it to trend for the remainder of the year?

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

Because we have higher occupancy and lower turnover, what we're starting to see is the incremental impact from damage and cleaning fees and bad debt is coming down on a year-over-year basis. That's the impact you have when people aren't moving out.

Nick Joseph– Citigroup

Would you expect that spread between the two to continue for the rest of the year or do you expect turnover to pick up?

Alex Jessett – Camden Property Trust

At this point, we're anticipating that although we're having exceptionally low levels of turnover, we think generally, it's going to stay fairly low for the rest of the year.

Nick Joseph– Citigroup

Thanks. On the land purchases you bought in the quarter, what do you see in terms of pricing, and maybe tie it to what you saw earlier in the cycle for land pricing?

Ric Campo – Camden Property Trust

Land prices have increased along with everything else. While land prices have increased, the idea that construction costs along with land prices have driven yields to the point where some of the projects aren't making sense, I think sellers are adjusting and making sure they can sell at some level. I don't think land prices are continuing to rise as fast as they were given the difficulty of underwriting in today's environment.

Keith Oden – Camden Property Trust

To add to that, the Phoenix site we bought is something we've been working on for several years, so that's reflective of pricing. It was two or three years ago. The site in Charlotte, it's an emerging market for sure, and we have had great success in getting ahead of where the growth is coming. We felt like we got an attractive price for that site as well.

Nick Joseph– Citigroup

Thanks for the color.

John Kim – BMO Capital Markets

Can you remind us what percentage of your same store revenue comes from multifamily rents versus fees, retail rents, and other income items?

Alex Jessett – Camden Property Trust

I would say it's probably close to 95%, but we'll have to get back to you on that.

John Kim – BMO Capital Markets

Ok. Alex, in an answer to a prior question, the lower other income, is that all turnover-related fees, or was there an impact on technology?

Alex Jessett – Camden Property Trust

Yes. The largest component of it is turnover related, so damage fees, cleaning fees, and bad debt. There is a slight component that's associated with the tech package because we finished rolling out the tech package last year, and so we're not really getting that much of an incremental impact in 2019, but that's a slight component of it.

John Kim – BMO Capital Markets

And you don't expect turnover to go up with new lease growth being so strong?

Alex Jessett – Camden Property Trust

I would tell you if you had asked us this question last year, we expected turnover to go up, and it continues to stay at record low levels.

Ric Campo – Camden Property Trust

Part of it has to do with in-migration to different markets and the way people move around the country today. They just don't move as much, and that's been a trend for the last two or three years. A lot of it has to do with the unemployment rate being so low everywhere. People think they don't have to move to another hot city to get a better job because the jobs in the cities they're in are doing well given the low unemployment rate. So you're starting to see migration rates slow in a lot of different markets, and that just keeps people in their apartments longer because they aren't moving around.

John Kim – BMO Capital Markets

That's very helpful. Thank you.

Shirley Wu – BofA Merrill Lynch

Good morning. Thanks for taking the question. Could you talk about some of the markets you've seen outperform or lag your initial expectations? Any extra color on what's driving that outperformance versus underperformance would be great.

Keith Oden – Camden Property Trust

If you would have lined up our results halfway through the year with our initial letter grades that we issue at the beginning of each year with our guidance, I would tell you that there's not a single one that I would change other than maybe a plus to a minus here and there. We're really tracking about as we expected we would across our entire platform. We do a reforecast every quarter. On $250 million of revenue forecasted for the second quarter, we were within $100,000, so plus and minus here and there, but nothing that would even be worth calling out to your question. The markets that we expected to be at the top of the charts are there. The weaker markets, Houston, Charlotte, and South Florida are most impacted by new supply relative to job growth, and again, that's pretty predictable and was predicted.

Shirley Wu – BofA Merrill Lynch

Great. Can you talk about the Houston market a little more as well as your development in lease-up, Camden McGowen Station? How is that lease-up doing versus initial expectations?

Keith Oden – Camden Property Trust

Yes. At the beginning of the year, we projected Houston to be one of our weaker markets primarily due to the geography of the competitive set and the units that were delivered in 2018 that are still in the process of trying to get absorbed. There were so many apartments that were delivered in the midtown and downtown areas that all new development as well as existing assets have suffered by the competitive nature of merchant builders trying to get to the finish line. The challenge has been merchant builders not getting to the finish line. Most of them thought their downtown and midtown assets would have been stabilized by the end of 2018, and it just hasn't happened. Even though Houston is on track to create 80,000 jobs this year, the nature of those jobs is a little bit of a mismatch with the high-end product that got built in midtown and downtown. The jobs that have been created, by and large, are hospitality, retail, and construction to a certain extent. But the sector that has not participated in job growth is the energy sector. All the large integrated oil companies, which are still primarily the preponderance located in the downtown area for their office space, they are just not in a hiring mood. It remains to be seen when that's going to happen. Going back a little over three years, the energy companies were just finishing their downsizing and dealing with the recency effect of having to lay people off. Fast forward three years later, there's a great deal of reluctance to start increasing head count. I think the energy companies are doing more with less, and at some point, that will reach a breaking point, and they'll start hiring again. But in the meantime, the jobs that are being created, even though they look good in terms of aggregate numbers, they're not jobs that necessarily support the kind of rents that you need to live in the midtown and downtown areas.

Shirley Wu – BofA Merrill Lynch

Thanks for the color.

Trent Trujillo – Scotiabank

Hi. Good morning. I wanted to go back to revenue. The operational update you provided earlier this quarter at NAREIT was showing a blended rate growth of 4.7% through May, and there were some overtures it could accelerate further in June based on historical trends, which would possibly lead to raising same store guidance, and so it sounded like it had picked up. How much thought did you give to raising same store revenue guidance given where first half came in?

Keith Oden – Camden Property Trust

As I mentioned, we did our reforecast for the second quarter and ended up almost exactly on top of where our reforecast was. Based on that, we feel like we have really good visibility for third and fourth quarters and have gone through the reforecast for that. We still feel very comfortable with the guidance we've reiterated. We did raise revenue guidance last quarter and we've maintained it for this quarter. We're comfortable with where we are in terms of where we think the end of the year will shake out at a 3.4% total revenue increase.

Trent Trujillo – Scotiabank

Ok. That's helpful. Going back to acquisitions, you've alluded to achieving or even exceeding the high end of your range. Could you give us some indication as to what's in your pipeline and the confidence that you can put to work all the capital you have raised so far?

Ric Campo – Camden Property Trust

Sure. The last chart I looked at had 14 properties that were in excess of $1 billion that we had in various stages of due diligence in terms of whether we were going to try to be the ultimate winner. The interesting thing about acquisition guidance is you can always hit your guidance if you're the highest bidder. We try to be as disciplined as possible in this very aggressive acquisition environment. I think we have better confidence today in that the properties we're looking at now are in the sweet spot of what we're looking for. What we're looking for is newer properties that haven't stabilized or have management issues. We think there are going to be some opportunities for us to at least meet our guidance and hopefully exceed it.

Trent Trujillo – Scotiabank

Ok. One quick follow-up, maybe for modeling purposes. On recurring capex, you've spent about $31 million year-to-date. I fully realize that this spending can be lumpy, but are you still comfortable with the original guidance of $68 million to $72 million for the year?

Alex Jessett – Camden Property Trust

Yes. We're still comfortable with that.

Trent Trujillo – Scotiabank

Thank you.

Daniel Santos – Sandler O'Neill

Hi. Good morning. Thanks for taking my questions. Two quick ones for me. The first one is on the management shuffle. Should we expect G&A impacts from any internal promotions? And then other than who's going to host the NAREIT happy hour, are there any changes in role responsibilities?

Ric Campo – Camden Property Trust

The answer is no to both.

Keith Oden – Camden Property Trust

Unfortunately, the answer is no.

Ric Campo – Camden Property Trust

Yes, especially NAREIT.

Daniel Santos – Sandler O'Neill

Fair enough. Fair enough. And then second, are there any submarkets where you're starting to get a little nervous about supply that's coming on the peak that is making you reconsider your exposure in the future?

Ric Campo – Camden Property Trust

No. The thing I think has been very interesting and positive about this real estate cycle is that all markets have been able to absorb their supply, and supplies are at peak levels. We think next year we start seeing some moderation in the peak in some markets. The good news is we've had enough job growth and stickiness of the existing customer base. The fact that we have lower turnover means we don't have to find as many new residents. And so that, in combination with a decent job growth market and great situations in each city, you've been able to absorb the supply without having a major negative impact. Now clearly, markets like Charlotte and Southeast Florida, maybe Charlotte is a great example where you have had a lot of supply, but you've had great job growth to back it up. And while it's moderated, it's put a damper on big rent increases for existing properties, but you're still positive maybe 1% or 2%. In light of how much supply is coming on-line, I think that's a very good backdrop. Ultimately the real question for us longer term is, where are we in this cycle? When you look at projections out further and an unemployment rate in the 3% range, where do you find people to add the jobs? There are jobs available and the economy is doing well, but there's a lot of concern about job growth slowing as a result of the inability to find people to take those jobs. Heretofore, at least the last year, there have been people coming back into the workforce to fill those jobs. But generally, supply has been good and well-absorbed.

Daniel Santos – Sandler O'Neill

Awesome. That’s it for me. Thank you.

Austin Wurschmidt – KeyBanc Capital Markets

Hi. Good morning. Thanks for the time. I want to go back to last quarter's call as we were discussing new lease rates and the expectation that new lease rates wouldn't push much higher than the 2.8% you achieved in April. But in fact, you did see significant improvement in May, and June also seems strong. I'm curious as to what may have offset the benefit from higher new lease rates as it seems like renewals are pretty much in line with expectation, and you're tracking above the 3.0% to 3.5% blended lease rates that I believe you assumed in your initial outlook.

Keith Oden – Camden Property Trust

Yes. Our guidance assumes total revenue growth of 3.4%, and we were 3.7% in the first quarter. When we do our reforecast, some of our markets, Houston, Charlotte, and South Florida and beginning to see signs in Austin, there's just a constant backdrop of too many apartments being delivered in some submarkets where we're competitive with that new supply. At some point it takes a toll. I think you're seeing some of that in those four markets and we expect that to continue throughout the balance of 2019. The good news is we still have markets that are doing 5% plus on blended growth rates and those are going to continue to help. But clearly when you're modeling 3.7% in the first quarter, we raised guidance to 3.4%, then maintained it at 3.4%. The math is pretty simple that you're going to see some deceleration in blended average total revenues through the third and fourth quarters and that's what we expect. We think it's moderate in terms of the deceleration that we could see in the third and fourth quarters. If we get to the end of this year and have another print of 3.4% total revenue growth on top of what we had in the last couple of years, we'll probably shake our heads and say, "job well done."

Austin Wurschmidt – KeyBanc Capital Markets

I appreciate the thoughts, and that leads into my next question. You gave a bit of a glimpse into 2020 supply as well as how 2018 and 2019 were shaking out. But as we sit here today, I'm curious how 2019 is playing out heretofore versus your expectation? Are you assuming what wasn't delivered in the first half gets delivered in the second half? How was Ron Witten's forecast for 2018 from initial projection perspective, and then what ultimately played out in 2018?

Keith Oden – Camden Property Trust

Witten is who we primarily use for completions. Actuals for 2018 were about 137,000 deliveries across our platform, which was a little less than what he had 12 months prior. He was off by about 8,000 apartments where he had 145,000, plus or minus being delivered in 2018. The consequence of that is, as you just mentioned, ends up rolling into 2019. He has 2019 almost spot on with 2018 at 137,000 completions again. There's movement in our platform, but the aggregate deliveries across our platform are almost identical from 2018 actuals to what he's projecting in 2019. Where it shows up is that now, whereas for two years, everyone was pointing to 2019 being the peak deliveries nationally, and we thought that would play out in Camden's portfolio as well. But based on Witten's new numbers for 2020, which he has going up from 137,000 to 151,000, clearly some of those 8,000 from 2018 rolled to 2019 and another 8,000 or 9,000 from 2019 has now rolled to 2020, and it looks like 2020 is going to be the peak. I hope that we're finally reaching the actual peak for deliveries across our platform. He's got completions coming back down in 2021, but not a huge amount. I think it's very likely that the rollover from 2018 to 2019 continued and will continue throughout 2019. I hope we see peak deliveries of around 150,000 in 2020.

Austin Wurschmidt – KeyBanc Capital Markets

What percent of the 137,000 delivers in 2019 is expected to be delivered in the second half of the year or absolute numbers?

Keith Oden – Camden Property Trust

I don't have that in front of me, but I'd be surprised if it wasn't pretty equal across our platform. There's not a whole a lot of seasonality in how and what we build with the exception of Denver.

Austin Wurschmidt – KeyBanc Capital Markets

Great. Thanks Keith.

Haendel St. Juste – Mizuho

Good morning. I wanted to follow up on an earlier question. Can you talk about the timing of development starts for the new land purchases in Charlotte and Tempe? What type of yields ballpark are you currently projecting there?

Ric Campo – Camden Property Trust

Sure. The starts for those units will be towards the end of this year beginning of next year, and mostly 2020 starts when you get down to it. In terms of development yields, they are anywhere from 5.0% on the high-rise urban to about 6.5% on suburban. Just to give you some color, there's been a lot of discussion about yields and yield compression because of cost increases going up faster than rental rates. In our last book of business, our ranges were 5.0% to 7.5%, and now they're about 5.0% to 6.5%.

Haendel St. Juste – Mizuho

Ok. That's helpful. I'm assuming you're projecting stabilized yields, so maybe some color on the rent and expense increases you're projecting as part of that?

Ric Campo – Camden Property Trust

Are you talking about rent increases in a development proforma?

Haendel St. Juste – Mizuho

Yes. I'm assuming stabilized yields you quoted. Just curious what's embedded within them.

Ric Campo – Camden Property Trust

It depends on the market. We're not inflating our rents much more than 2% or 3% given where we are in the current market. What we do generally is two methods of analysis. One is un-trended returns and the other is what we expect the returns to be. Those are the returns I just gave you. I think the rent increases are anywhere between 2% and 3% max, and we're inflating operating costs 2% to 3% as well.

Haendel St. Juste – Mizuho

Ok. I'm curious about the Charlotte development, given the relative revenue weakness and the supply commentary you mentioned earlier on that market. What about that project specifically gives you the confidence to start that in light of your earlier commentary?

Ric Campo – Camden Property Trust

As Keith said earlier, it's Charlotte NoDa, which is on the rail line, and it's basically north of downtown Charlotte. We're going to start construction on that project in January 2020, so it's not going to deliver effectively until the middle or end of 2022. The Charlotte market, while it's having some issues now with absorption, over time it's one of our best markets. We think fundamentally that this project, given where it is on the rail line, will absorb into the market the way the other ones are absorbing in the market today, which would be a very positive, reasonable yield and another great asset for us in Charlotte.

Haendel St. Juste – Mizuho

That's helpful. Thanks. And one last one, if I may. I don't know if I missed it earlier, but maybe you could share some color on the initial yield for the Austin acquisition and some of the longer-term operating upside, if there's any there.

Ric Campo – Camden Property Trust

Yes. Our acquisition program today is to buy assets that have not been stabilized from a lease-up perspective. The Austin asset would definitely categorize as that – somewhere between 10% and 20% below replacement cost, and then having upside where we can bring our management team in, bring our technology packages in and drive cash flows up. So generally, the theme of that is to buy properties that are in the low 4.0% to 4.25%-ish existing cap rates. We think fundamentally within a couple of years, we'll be able to get it up to a 5.0% cap rate by implementing Camden revenue management systems and technology packages. That would be the model we're looking for, and that's pretty much where Austin is.

Haendel St. Juste – Mizuho

Thanks Ric.

Drew Babin – Robert W. Baird

Good morning. A question on maintenance capex. It ran a little high relative to our estimates on a per unit basis in the second quarter. Is this a sign of trends, the same factors influencing development costs influencing capex, and maybe there is a per unit number you think is budgeted for this year? Could you remind us what that is?

Alex Jessett – Camden Property Trust

Yes. What I would tell you is this is entirely timing based. If you look at our original guidance, it was $68 million to $72 million, and we anticipate being right in that range. What you saw in the second quarter as compared to your model is probably just a bit of a timing issue.

Drew Babin – Robert W. Baird

Ok. That's helpful. A question on Southeast Florida. That's a market where job growth hasn't been as hot as the rest of the Sunbelt. Obviously, there are some supply issues there. Can you talk about who is adding jobs there, and what types of factors might get that market going again? Could a currency fluctuation or something like that possibly bring more activity in? Based on your experience in the market, I was hoping you could give some color there.

Keith Oden – Camden Property Trust

If you take Witten's numbers for projected job growth in Fort Lauderdale, 27,000 jobs are forecasted this year, and that drops a little into 2020. Same thing for Miami. Miami's forecast for 2019 is 20,000 jobs going to 14,000 in 2020. Given the amount of new supply that's been delivered in both Miami and Fort Lauderdale, not just in rental apartments which you think of as our direct competitors, but the number of for-sale condos that have been delivered across those two CBDs is crazy. It doesn't necessarily show up in stats on employment growth compared to completions but is a significant factor in both of those markets. On job growth, hospitality and construction jobs continue to be a big piece of the equation because of all the construction activity, not just residential but also commercial construction activity. I don't think it's the character of the jobs in the Miami/Fort Lauderdale markets, I think it's the amount of supply of both for-sale and for-rent product that we've had to try to absorb there.

Ric Campo – Camden Property Trust

To your point of currency valuation changes, I think there's definitely an impact on Southeast Florida, given it's the capital of South America or Central America. You have seen volatile currencies issues down there, there's been flight capital, and folks that have come into the market. A lot of the condos that Keith is talking about that are competing with apartments are people generating hard currency that are South American owners trying to lease their very expensive condo cheap in order to get some hard currency. It's an interesting market. Long-term it's a great market, but it has a few headwinds right now.

Drew Babin – Robert W. Baird

Ok. That's all helpful. One last quick question on Southern California. Obviously, your performance in that market looks better than your peers' product in what you own and where you own it. The last couple of quarters seem like the revenue growth has been more occupancy gains and decent rental rate growth, not outperforming rental rate growth, but still in the upper 2% range. Have you seen anything so far in the third quarter that would indicate any marginal softening in Orange County or near San Diego, or have trends in the first part of the year of continued and you still expect to do pretty well in those markets?

Keith Oden – Camden Property Trust

Our Los Angeles/Orange County and San Diego/Inland Empire platform, as you mentioned, have a little different geography than most of our comp set do. The strength we've seen for the last two quarters was modeled. When you look at our reforecast, it looks like it's going to continue. Yes, we've had occupancy gains in both of those markets, but that's been true across our entire platform. As I mentioned in my prepared remarks, it looks like we're trending towards 96.3% occupancy in July, which is, as you all know from long years of doing this with us, that's really unusual in our portfolio. We've operated in the 95.0% to 95.5% range for so many years that it feels a bit unusual to be at 96.0%, much less 96.3%. The occupancy pickup is not just a Southern California phenomenon, it's pretty much across our entire platform.

Drew Babin – Robert W. Baird

So I take that to mean rental growth trends as far as leasing activity so far into the third quarter are pretty much on target with budget?

Keith Oden – Camden Property Trust

They are.

Drew Babin – Robert W. Baird

That’s very helpful. Thank you.

John Pawlowski – Green Street Advisors

Thanks. On the acquisition front, would the Pure multifamily REIT portfolio have met your quality criteria?

Ric Campo – Camden Property Trust

It would not have met our existing quality criteria at this point. It was definitely an interesting portfolio and an interesting trend pricing-wise. We evaluated the portfolio. The challenge for us with it was number one, it wasn't in that sweet spot that we're looking at today; and number two, it was highly concentrated in Dallas with some suburban properties that we weren't really excited about. There were a lot of other issues around it, and we would not have ever been as aggressive pricing-wise that it ultimately traded out.

John Pawlowski – Green Street Advisors

Ok. A broader question on portfolio acquisitions. What is the appetite? I know pricing and markets matter. What is the appetite to do larger portfolio deals right now?

Ric Campo – Camden Property Trust

For the right product and the right portfolio, we'd be fine doing a large transaction. I think the challenge you have with large transactions and Pure is probably a good example of it, if Keith was answering this question on Pure, he would say there were three properties in the whole portfolio that we would have wanted to buy. Now on the other hand, you might change your strategy from an acquisition perspective if the pricing was where you wanted it to be and you could change your criteria too if you thought there was value to be had in it. I think the challenge you have with portfolios fundamentally is that they tend to have assets in them that you don't really want. You have to take them to get what you want. And then the question is, what percentage of the portfolio is something you really want to buy? What are you going to do with the ones you don't want to buy that you have to buy? Are you having to pay a price where you think you can either move out of them or trade them around in the future? Oftentimes we see these portfolios and say if we wanted to buy $1.0 billion or $1.2 billion of properties like Pure had, we'll just go be the highest bidder on 12 $100 million-dollar projects that we want to buy. Unless there's something strategic around it or the pricing is so good that you want to do that kind of business. That's why we haven't done a large transaction in a while. The pricing today is very robust for everything, and you'd probably get a premium for it if you were a seller of a large portfolio today.

John Pawlowski – Green Street Advisors

Ok. Is the pricing getting irrational or too irrational in any market where you'd consider ramping up dispositions right now?

Ric Campo – Camden Property Trust

No. I don't think it's irrational. When you look at the math on Pure or the math that we're seeing on these other properties, people have reduced their return requirements to a certain extent, and multifamily fundamentals continue to be reasonable even in markets that are oversupplied or have lower rent growth because they're oversupplied from that perspective. I haven't seen any real head scratchers. When it comes to dispositions, we've sold a lot of properties in this last cycle. We've traded out 20-year-old assets for newer properties in the 4- to 5-year range and used dispositions to fund development as well. We don't have a lot of assets that we really want to part with right now. I haven't felt like the market is so irrational pricing-wise that I have to get in there and sell into it. Because when you sell into it, the question is do you think prices are going to go down or be able to, so we can redeploy that capital? Given the interest rate cycle we're in, given the length of the recovery and given the fundamentals for the business, it's really hard to make a case for apartment cash flows and cap rates to change dramatically right now. The answer would be no.

John Pawlowski – Green Street Advisors

Ok. Makes sense. Thank you.

Karin Ford – MUFG Securities

Hi. Good morning. I wanted to ask about the management transition. Should we be expecting more management changes near term as part of the succession planning? And Ric, how should we be thinking about your tenure?

Ric Campo – Camden Property Trust

I don't think you should anticipate something next quarter or the quarter after that. We've been in succession planning mode for quite a while. I do have my 65th birthday next week, so I'm glad we didn't do the conference call that day. Keith is younger than me, by the way.

Keith Oden – Camden Property Trust

And always will be.

Ric Campo – Camden Property Trust

I know Malcolm is probably going to hit me for saying this, but he is slightly older than me. When I think about succession planning, especially in a culture like Camden, we're going to internally grow our next tier of management, and they're all with Camden right now. Keith and I have had a longstanding succession plan with our Board for a long time. I know some people on the call have asked us this specific question, and we've told them about it. Each year we commit to a three-year term. That's basically a letter that we send to the Board that says Keith and Ric are going to stay for three years. If there's a reason we don't fulfill that commitment, due to health issues or something like that, then the person who doesn't make it agrees to stay at least two years for transition. Both of us are healthy. We love Camden, we love our structure, and we plan on being here for a while. Creating space in the organization allows our most senior people to get more experience in areas that they may not have as much experience in, which positions us ultimately for transition. That transition is going to happen in the future. Is it next year, the year after, the year after that? I don't know, but it's a well thought out program. We fundamentally believe that our next generation of leadership are at Camden now, and we want to make sure that they stay at Camden. So that's one of the reasons for opening up space in the titles.

Karin Ford – MUFG Securities

Ok. That sounds good. My second question is, at NAREIT you called out Washington, D.C. as performing better than planned. It ended up decelerating 90 basis points in the second quarter, and now you're saying everybody is in line with plan. Is D.C. falling off at all, and are you starting to see any demand impact there from HQ2 yet?

Keith Oden – Camden Property Trust

For the second quarter, D.C. was at 3.8% revenue growth, which would place it as the fifth highest in our portfolio. I called out the top four, and the next one would have been D.C. Metro. So out of 15 markets, it would be fifth. It's been a long time in Camden's world since D.C. Metro would have been in the top five. I don't know about the NAREIT comparison, but in our world 3.8% in D.C. Metro for the quarter is a really good quarter. I would tell you that the commentary from our D.C. Metro operating staff on our quarterly calls to get an update on market conditions is the most positive and constructive tone that I've heard out of our D.C. Metro operations team in probably three or four years. All of that bodes well for continued good performance in our D.C. Metro portfolio, which over the last two or three years has outperformed most of our peer group. A lot of that just has to do with our geography in the D.C. Metro area versus a lot of our peers.

Karin Ford – MUFG Securities

Great. Thanks for taking the questions.

Hardik Gold – Zelman & Associates

Thanks for taking my question. I wanted to wrap together a bunch of different questions that were already asked and just talk about capital allocation and how you think through it. You talked about the acquisition environment being really aggressive and hard to stay disciplined if you want to win deals. You're also filling in your predevelopment pipeline. Is the option here to build more? What does your starts outlook look like longer term, specifically 2020? How do you think about the incremental dollar invested today and what to do with it?

Ric Campo – Camden Property Trust

The incremental dollar, given the spread between acquisition pricing and development, if we could wave a wand and make the development pipeline larger, we would definitely err on the development side. Between late this year and next year, the Phoenix and Charlotte projects would be $210 million; and then the late starts this year with two projects, one in Florida and one in California would be $180 million. When you add those two together, that's $370 million that could or should start between the end of 2019 through 2020. But again, we would definitely be more development-oriented than acquisition-oriented, even though I think the challenge we have with development is getting projects that actually pencil. That's why we'll do a combination of the two and try to find those sorts of diamonds in the rough where we can drive up earnings growth over a couple of years in this environment pretty dramatically so we can get them up into 5% yields.

Hardik Gold – Zelman & Associates

Thanks so much for that detailed response. Just a quick follow-up. When you think about development in the markets, is it very case-by-case and project-specific? Or are there a few markets where construction costs are less of a burden or increasing less? We hear from your peers that construction is really difficult in some markets where it can be easier in others? Which markets are you focused on today?

Ric Campo – Camden Property Trust

I think that all markets are the same in terms of construction costs and time. It takes longer to build today due to a lack of construction workers. Each market is definitely unique, and we're trying to find projects in markets we operate where the numbers work. I don't think there's any easy market or a market where you can't find something. It's probably more difficult in California because of all the issues than it is in some of the other markets. The California project that I talked about for a start at the end of this year, early next year. We've been working on it for three or four or longer. Generally speaking, I think you've hit the nail on the head that it's hard to build everywhere. If we could expand the pipeline, we would if we could get reasonable yields. And that's where we're constrained, the discipline on making sure that we're not investing that incremental capital at a return that isn't in our guidelines.

Keith Oden – Camden Property Trust

I'm guessing that what you're hearing from our peers about hard and easy to build in, they're probably referring to the entitlement process not the cost pressures, because cost pressures are significant relative to what underwritten yields you're trying to achieve that makes sense. They're as hard in Houston, Texas as they are in Southern California. On the other hand, the actual regulatory regime and the entitlement process is a different animal in California versus Houston. You would have to put them on an array, but the array of hard to easy or relatively easy entitlement process would start with California and probably end with some of our Texas markets. And then the others would be spread along the way. But the cost pressures are significant and real across all 15 markets that we're trying to operate in.

Hardik Gold – Zelman & Associates

Thanks so much for the color.

Rich Anderson – SMBC Nikko

Thanks. Hopefully I'm the last question. When I was reading Ric's bio, I have to say you guys are remarkably spry for the amount of time you've been doing this, and so credit to you. And I was going to ask the question what's the endgame as you start to consider closing out your career, succession, go private or some sort of combination. It sounds like the answer, if I were to answer for you, would be succession, which is great. Are things levering up and going private or some sort of reverse merger since you would ultimately financially have to be a buyer in a public-to-public type thing, but your portfolio would prove another where the reverse would not be true in your eyes, I'm assuming. Are those two other alternatives completely off the table for Camden at this point? I'm just wondering if you could comment on that.

Ric Campo – Camden Property Trust

I think they're totally unrelated to succession, right?

Rich Anderson – SMBC Nikko

That's fair. That's fair.

Ric Campo – Camden Property Trust

Because to me, the issue of what you do with Camden as an entity or assets or how you drive total shareholder return and how you compete in the marketplace is one issue. I would never connect a succession issue to a financial transaction that is either good or bad or indifferent for a Camden shareholder. When I think about Camden as the CEO and Chairman and large shareholder, I think about maximizing the ability of the Company to have longevity and to compete in the marketplace effectively in the top quartile of returns. If there was a private transaction or a public transaction or any transaction where we could drive that objective, then we would do it. Each transaction you mentioned has their own issues and risks. But they're not related to Keith and my longevity or spryness or succession plans. Ultimately, I think this is a great long-term business. We've been doing it for 26 years, almost going on 27 now and have had great returns and created a lot of value for shareholders over the years. I think it will continue. The question about what we do I think will be unrelated to what Camden does or what we do as a company from that perspective.

Rich Anderson – SMBC Nikko

Fair enough. I appreciate the color.

Ric Campo – Camden Property Trust

Great. Well I appreciate the time today and the consideration. Have a great rest of your summer, and we'll see you on the circuit in September. Take care. Thanks.