Third Quarter 2018 Earnings Call

October 26, 2018 - 10:00 AM CT

**Kim Callahan – Camden Property Trust**

Good morning, and thank you for joining Camden's third 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 third 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. I would like to give a shout out to John Kim at BMO Capital Markets for providing this quarter's on-hold music. John got the honor by winning our "Name that Music" contest last quarter. John's theme for the call was songs from 2009, the year the Great Recession ended. To some of you the songs may have sounded recent, to others they may have sounded ancient…it probably depends on how you were personally impacted by the Great Recession. John didn't say this, but I would be willing to bet there are more than a few of you on the call today who were still in school in 2009. Time flies when you're having fun. Speaking of fun, Camden's third quarter results would qualify as fun. Our on-site and support teams performed better than expected, with solid revenue growth and great expense control driven by our "Attack the Run Rate" initiative.

Apartment fundamentals remain strong despite high levels of supply in most of our markets. Strong job growth and in-migration from high cost and high regulatory states have continued to support high apartment demand in Camden's markets. For 2018, we have completed $600 million of combined acquisitions and development starts, which is in line with our original guidance. The mix has changed however. Our development starts were $100 million more than our guidance and our acquisitions are $100 million less than our guidance. We effectively traded lower yielding acquisitions for higher-yielding developments, albeit the timing will be different on producing those yields.

With that said, I'd like to turn the call over to Keith Oden.

**Keith Oden – Camden Property Trust**

Thanks Ric. Last quarter was Camden's 100th quarterly earnings call, so this quarter begins the next 100. Honestly, I'd gladly take another 99 just like this one as our results were solid and slightly better than we expected for both the quarter and year-to-date.

Same store revenue growth was 3.1% for the third quarter, 3.2% year-to-date, and up 1.1% sequentially. Our top markets for revenue growth for the quarter were Denver at 4.3%, Orlando at 4.1%, Houston and Phoenix both at 3.8%, and San Diego/Inland Empire at 3.6%. Our weakest three markets again this quarter with less than 2.5% growth were Dallas, Austin and Charlotte, the most heavily supply challenged markets in our portfolio.

Overall rents on new leases and renewals are slightly better than planned year-to-date and look encouraging relative to our fourth quarter plan. In the third quarter, new leases were up 3.1% and renewals up 5.5%, providing a blended growth rate of 4.2% versus 2.8% in the third quarter last year. So far in October new leases are basically flat with renewals up 5.0%, for a blended increase of 1.8%. October occupancy is running at 95.8% versus 96.0% last October, however, just a reminder that last year's October occupancy rate was influenced by the Hurricane Harvey occupancy effect which drove

Houston's occupancy rate up to 97.5%. The Hurricane Harvey effect will have a measurable impact on our fourth quarter comparisons to last year.

Our third quarter net turnover rate fell again to 54% from 55% last year and remains below last year's 49% turnover rate, at 47% through the first three quarters. In the quarter, moveouts to purchase homes dipped to 14.3% versus 14.6% last year leaving us at 14.7% year-to-date versus 15.2% last year. It appears that the gradual upward trend over the last several years in this metric may have stalled in 2018 at a level well below the historical norm and bears watching in coming quarters.

I'd like to thank all our Camden associates for an outstanding quarter. Let's finish strong to close out 2018.

I'll turn the call over to Alex Jessett, Camden's CFO.

**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. At the end of the third quarter we purchased Camden Thornton Park, a recently-constructed, 299-unit, 9-story community in the Thornton Park neighborhood of Orlando for approximately $90 million. This community is directly adjacent to our existing Camden Lake Eola development, providing the opportunity for further operating efficiencies. Also at the end of the quarter, we sold a 14-acre outparcel adjacent to our development sites in Phoenix for $11.5 million.

During the third quarter of 2018 we began construction on Camden Buckhead in Atlanta. 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. Subsequent to quarter-end, lease-up was completed at Camden NoMa II in Washington, DC. This $108 million development is expected to deliver a stabilized yield of approximately 8.25%, creating over $80 million of value for our shareholders. For 2018, we have now completed $300 million of acquisitions and started $280 million of new development. We are not anticipating any additional acquisitions or dispositions in 2018.

Turning to our recent financing activities, on October 1st 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 4th. 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, 79% of our debt is now unsecured and 90% of our assets are now unencumbered.

Turning to financial results, last night we reported funds from operations for the third quarter of 2018 of $117.1 million or $1.20 per share, exceeding the midpoint of our guidance range by $0.01 per share.

This $0.01 per share outperformance resulted primarily from:

- Approximately $0.005 in lower same store operating expenses due to lower turnover costs, lower amounts of self-insured health care costs and continued cost control measures, and $0.005 in higher non-same store net operating income resulting from better than expected results from both our previously completed acquisitions and our current development communities.

We have updated and revised our 2018 full-year same store expense, net operating income and FFO guidance based upon our year-to-date operating performance and expectations for the fourth quarter. As a result of actual and anticipated future expense savings, we have reduced the midpoint of our same store expense guidance by 45 basis points from 3.5% to 3.05% and increased the midpoint of our same store net operating income guidance from 3.0% to 3.2%.

Last night we also increased the midpoint of our full-year 2018 FFO guidance by $0.02 per share from $4.74 per share to $4.76 per share. This $0.02 per share increase is the result of:

- Our anticipated 20 basis point, or $0.01 per share increase in 2018 same store operating results. Approximately $0.005 of this increase occurred in the third quarter with the remainder anticipated in the fourth quarter; and,
- $0.01 per share of additional non-same store outperformance from our previously completed acquisitions and our current development communities. Approximately $0.005 of this increase also occurred in the third quarter with the remainder anticipated in the fourth quarter.

Last night we also provided earnings guidance for the fourth quarter of 2018. We expect FFO per share for the fourth quarter to be within the range of $1.20 to $1.24. The midpoint of $1.22 represents a $0.02 per share increase from our midpoint of $1.20 reported in the third quarter of 2018. This increase is primarily the result of:

- A $0.01 per share or approximately 1% expected sequential increase in same store NOI driven primarily by our normal third to fourth quarter seasonal declines in utility, repair and maintenance, unit turnover, and personnel expenses;
- A $0.01 per share increase in NOI from our development communities in lease-up; and,
- A $0.01 per share increase in NOI from our recent acquisition of Camden Thornton Park.

This $0.03 per share cumulative net increase in FFO will be partially offset by:

- A $0.01 per share decrease in FFO resulting from a combination of higher overhead costs due to the timing of certain corporate-related expenditures and slightly higher interest expense as the fourth quarter interest savings from our recent debt refinancing will be offset by higher amounts of debt outstanding and lower amounts of capitalized interest as several of our developments near construction completion.

Our balance sheet is strong with net-debt-to-EBITDA at 4.1 times and a total fixed charge coverage ratio at 5.5 times. We have $793 million of development currently under construction, with $380 million remaining to fund over the next three years. As of October 25th, we have no amounts outstanding on our unsecured lines of credit and $30 million of cash-on-hand.

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

**Nick Joseph – Citigroup**

Thanks. In Houston you're facing a difficult occupancy comp in 4Q. How are things trending from a new and renewal lease perspective? As you face more normalized occupancy comps next year, and I know it's before formal guidance, how is Houston looking in 2019?

**Keith Oden – Camden Property Trust**

We're in the process of putting together our budgets for 2019. We look at different data providers. If you look at Ron Witten's forecast, he has revenues going up somewhere in the 4% to 5% range for Houston in 2019. We'll see where ours come out. The comp is a tough one because of occupancy in the fourth quarter, but that normalizes quickly in the first part of next year. We trended back down to about 95% as we expected we would by the second quarter. I don't think there will be much of that noise in the numbers. Houston continues to recover nicely. Last month we got a report that showed the trailing 12-month job growth in Houston was 128,000 jobs. That's enough to move the needle even in a metropolitan area like Houston. Things continue to recover nicely. The nice thing is that up until recently, the job growth had been coming without much participation by the integrated oil companies, and within the last two quarters, we've really seen a shift in that. They've begun to hire again. They're at full capacity. I think that bodes well for Houston's job growth in 2019. We have a very constructive supply scenario for Houston next year. Around 8,000 apartments are going to be delivered into the Houston metropolitan area, which is sort of a rounding error in terms of total supply. If we get another year of really good job growth in 2019, which is kind of what's projected in most forecasts and 8,000 new apartments, that's really good math for our business.

**Nick Joseph – Citigroup**

Thanks. On the balance sheet, after repaying the secured debt earlier this month it looks like the only remaining secured debt is coming due next year. How do you think about the use of secured debt as part of the overall capital stack going forward?

**Alex Jessett – Camden Property Trust**

We fundamentally believe that we should be an unsecured borrower. We've got $439 million of secured debt that's coming due in the first quarter of 2019, and our intention is to not take that out with additional secured debt.

**Nick Joseph – Citigroup**

Thanks.

**Shirley Wu – Bank of America/Merrill Lynch**

Congrats on a great quarter. As we move into 2019, outside of Houston, which markets do you believe are set to reaccelerate or decelerate from 2018, especially in your higher supply markets, like Dallas or Charlotte?

**Keith Oden – Camden Property Trust**

Again, we're in the process of putting together our game plan in all of our markets. We look at aggregated data from data providers. The data provider that we rely most on is Ron Witten, and if you look at what he has modeled for Camden's markets in 2018 to 2019, he's got total revenue growth around 3.2% for 2018. If you look to 2019, that number goes up to about 3.7% in his high-level aggregated number. So clearly, Ron is looking for a slight improvement across the board of about 50 basis points in our entire portfolio. What that means for each of our individual markets, we'll have to wait and see until we get the final results and review our budgets for 2019 revenues. We'll issue guidance in the first part of 2019.

If you think about the drivers in our business and look at employment growth and supply, there is not a huge difference between what's happening in 2018 and what the outlook is for 2019. Job growth comes down a little across our platform, new completions stay relatively flat, but the change in the ratio of new jobs to completions doesn't move that much. We're slightly above 5x for 2018 and that drops to slightly below 5x for 2019. Overall, looking at the macro data and not drilling down to each individual market, which is the whole purpose of our budget process, the macro data says 2019 should look a lot like 2018 with maybe some slight improvement. We'll have to see how it plays out.

**Shirley Wu – Bank of America/Merrill Lynch**

That's great. Are there any markets in particular that you might be concerned about in terms of supply and rent just not being there?

**Keith Oden – Camden Property Trust**

The three weakest supply-challenged markets that we operate in right now are Austin, Dallas and Charlotte. If you look at the supply numbers for 2019, there is very little relief coming in any of those three markets. Dallas gets a little better, Austin gets a little worse, and Charlotte is about the same. I think you can look for us to continue to be swimming upstream in those three markets because of the headwinds of supply.

**Shirley Wu – Bank of America/Merrill Lynch**

Thank you.

**<u>John Kim – BMO Capital Markets</u>**

Thanks again for allowing me to be your hold music DJ.

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

Absolutely.

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

Well done.

**<u>John Kim – BMO Capital Markets</u>**

On your turnover rate of 47%, can you comment on any markets that are meaningfully higher or lower than your portfolio average?

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

When you look at them year-over-year, you'll always have markets that have higher versus lower turnover rates. If you look at them by comparison, there's nothing that stands out in our portfolio. We've had a 2% difference in the turnover rate from last year, and that would be consistent across the platform. Within that set of data, we have turnover rates that vary by as much as 7% or 8%, up and down from the average in our portfolio. We can give you that data offline if you'd like.

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

When you think about turnover it's about the migration patterns of Americans, what's happened over the years and how that's changed. There's been a secular change in people making moves and wanting to make moves. It's primarily because of Millennials. They're a different breed compared to Baby Boomers who were always willing to move to a new city to get a better job. But today, with the unemployment rate as low as it is and the competition in the job market, it's a lot more difficult to relocate people when they have a home and kids than it has been. You still have out-migration from California and some of the other East Coast cities that's been going on for a long time, but generally speaking, people are staying put in their homes and apartments longer. They're not moving as fast as they did in the past. I think it's a secular change in the way people do everything, including getting married a lot later in life or maybe not getting married at all, and having children later. It's moved into the system, and now our traditional turnover rates are not what they were in the past because of that.

**John Kim – BMO Capital Markets**

Thanks. Alex, on the senior notes, it looks like a prescient move to lock in the 10-year early to reduce the effective interest rate. How long are the swap agreements duration for?

**Alex Jessett – Camden Property Trust**

It's for a 10-year period. We first started entering into them at the end of 2017, and we finished them in the early part of 2018. The way it works is there's a net settlement, and the net settlement was clearly in our favor. We'll amortize that net settlement against interest expense over the full 10 years.

**John Kim – BMO Capital Markets**

3.7% is for the full 10 years?

**Alex Jessett – Camden Property Trust**

That's correct. 3.74% for the full 10 years.

**John Kim – BMO Capital Markets**

Got it. Thank you.

**Austin Wurschmidt – Keybanc Capital Markets**

Good morning. At the outset of the year, you were projecting Washington, DC to be a 3% revenue growth market, and I believe you're tracking a little below that up to this point. There have been some recent comments from one of your peers concerning CBD fundamentals in particular. Without giving 2019 guidance, what's your outlook or optimism for your suburban markets, Northern Virginia and Maryland over the next 6 to 12 months?

**Keith Oden – Camden Property Trust**

We rated DC Metro as a B market and stable at the beginning of the year, which is pretty consistent with where we think we're operating. If you think about the third quarter this year, our average revenue growth in our portfolio was 3.1%, and DC Metro was 3.1%. This is the first time in a while that DC Metro has been in the top half of our revenue numbers, so that's a good sign. For the third quarter, Houston was 3.8%. Our two largest markets, DC Metro and Houston are both in the top half of our portfolio. Again, that hasn't happened in some time. We're reasonably optimistic about our DC Metro portfolio, not only through the end of the year but into 2019. As you all know, we have a very different footprint than a lot of our competitors have in the DC market with a lot of suburban exposure. I think that has served us well for the last couple of years relative to the comp set. We're in a transition in a lot of these markets, where a ton of the supply has been in the urban core, and where we have more exposure in urban areas that's been a negative, and our suburban markets have been a positive. Based on the decline in new supply and starts that's inevitable in the next couple of years, that will benefit the urban areas more so than the suburban areas. Overall, we're pretty optimistic about where we're situated in DC Metro in 2019, and I look forward to seeing some of that reflected in our DC budgets when we roll them up.

**Austin Wurschmidt – Keybanc Capital Markets**

Thanks for that. On development you mentioned the pipeline is around $700 million, and you've got some projects that will wrap up the early part of 2019. What's the appetite to backfill these projects, and what's the right level of development we should be thinking about for you moving forward?

**Ric Campo – Camden Property Trust**

We're very comfortable in the $200 million to $300 million range for development starts annually going forward into 2019 and 2020. We have that pipeline of land or transactions that are in progress right now to be able to start those projects between now and/or 2019 and 2020.

**Austin Wurschmidt – Keybanc Capital Markets**

Can you give us the yield on the Buckhead development?

**Ric Campo – Camden Property Trust**

On the development that we started?

**Austin Wurschmidt – Keybanc Capital Markets**

Yes.

**Ric Campo – Camden Property Trust**

It's trending around 6% plus or minus. When you think about the development cycle, when we first started building back in 2010-2012, we were doing 10% cash-on-cash returns if you can imagine that in Houston and Tampa. Over time as a result of increased construction costs, the time it takes to build and the pressure in the market, yields have compressed. When you look at building to a 6% when the market today on an acquisition basis is still 4% or 4.25%, you're still making a nice spread over what we could get on an acquisition for the development risk, and we get to build what we want as opposed to buying somebody else's building that wasn't necessarily built by us for us.

**Austin Wurschmidt – Keybanc Capital Markets**

Thanks for taking the questions.

**Rich Hightower – Evercore ISI**

Good morning. A follow-up on the development question. Do you see that spread between market cap rates and yields compressing, given the increase in base rates combined with an unabated cost escalation on the construction side?

**Ric Campo – Camden Property Trust**

Yes. Spreads have tightened compared to where they were in the past. They were really wide, and people are making wider spreads than they've ever made in my business career. That has reached a point where it's more normalized at 150-200 basis points positive spread between acquisitions and development. I think part of the issue is that it's hard to find transactions like that, and that's why we're at $200 million to $300 million and not $500 million for acquisitions. It's more difficult to get deals done and to make the numbers work from that perspective.

When you think about the 10-year treasury, it has obviously gone up from the beginning of the year and people think about why cap rates haven't gone up as fast as the 10-year treasury. And therefore, you're thinking that prices must come down and cap rates must go up. There's a massive wall of capital today that continues to flow into real estate and multifamily specifically, since the darlings are multifamily and industrial with the Amazon effect. We had a board meeting this week, and HFF came in to update our Board on current market conditions. They had a slide that showed $182 billion of unfunded real estate capital that needed to find a home. When you start thinking about apartments and cap rates, the 10-year is probably the last thing that influences cap rates. The first thing is liquidity and how much money is in the market chasing deals. Second is operating fundamentals, supply and demand. The third is inflation expectations and the fourth is the 10-year treasury.

When you look at the relationship of cap rates today, we have massive liquidity. We have pretty decent supply and demand fundamentals, and if the Fed is raising rates because they're worried about the economy getting overheated and inflation coming back, multifamily is a defensive asset from that perspective. We mark 8% to 10% of our leases to market every single month. It's a very sought-after asset class. Unless there's going to be a massive change in liquidity or operating fundamentals or expectations on inflation, I don't see cap rates doing anything but staying really sticky, and prices doing nothing but going up because cash flows are increasing.

**Rich Hightower – Evercore ISI**

Okay. That's helpful. I think the wall of capital argument is an interesting one. If we apply that to Houston, clearly supply is going down next year and that's a very favorable setup. But given the quickness of the supply response in a market like Houston and given Camden's longstanding experience, how do you expect that picture to evolve as we get further into 2019? Do you see permits accelerating again given the wall of capital that would presumably still be interested in multifamily in a market that's generating 80,000-90,000 jobs a year and given the fundamental dynamics there?

**Ric Campo – Camden Property Trust**

Houston clearly has the best story in America right now. Lowering supply, increased job growth, a very dynamic market. We do absolutely expect permits and starts to increase in 2019 and 2020. The good news is that you can't build your project fast enough to negatively impact 2019 and part of 2020. When you get down to it, the market is very transparent, and I think it's interesting when you start thinking about supply and how you can turn it on and off. In the past people thought of these markets as non-barrier to entry markets and always vulnerable to overbuilding. Because of the transparency today in the marketplace, people who are making capital decisions on the equity and debt side of this business see everything that's out there, and they know what's coming, and what the supply and demand dynamics are. When the supply and demand dynamics get out of whack, they stop. Just like Houston, we went from 20,000 units to 7,000 or 8,000 units this year. I think that Houston will ramp up because it has a story, but the question is how many units can get done given the cost environment and return requirement issues.

**Keith Oden – Camden Property Trust**

That's all correct. Witten is forecasting 6,000 completions for Houston this year, and I think that's going to be correct as it turns out. His projection for next year is 7,000 completions, then he has that ramping up to 13,000 completions in 2020. So yes, absolutely it's going to go up. As long as we get okay job growth, 13,000 completions in a metropolitan area like Houston is not going to be disruptive at all. That's below the long-term trend. There's no question that Houston is the best story out there right now, and there's certainly a lot of predevelopment activity going on.

**Rich Hightower – Evercore ISI**

Got it. Thanks.

**Alex Goldfarb – Sandler O'Neill**

Good morning. Echoing John's comment, Alex, congrats on your timing on the debt issuance. I have two questions. The first is going back to Washington, DC. The common market sentiment is that Amazon is going to pick Crystal City for HQ2. What are your thoughts on the impact to your portfolio? Longer term, DC seems to be a great developers market not a great operators market. Is your view that Amazon announces it and suddenly all the developers ramp up and therefore the landlords really don't get the benefit? Or do you think there may be some longer-term benefit for the landlords?

**Keith Oden – Camden Property Trust**

I hope the prognosticators are right on Amazon. That would be a great benefit to us and to a lot of other people. We have a decent-sized footprint that would be impacted by that location decision, no question about it. As to the point on DC Metro, it really hasn't been a supply challenge over the last couple of years, it's just been weaker job growth. If you look at what's coming this year, we've got about 10,000 completions in DC Metro in 2018. That ramps up to around 12,000 next year and then back down in 2020. 10,000-13,000 in the entire DC Metro area, historically that wouldn't be really troublesome on the supply side. The challenge has been job growth. Witten's job growth for 2019 is about 39,000 and that drops to 22,000 in 2020. Obviously Amazon is a game changer for all of that. Unlike many of our other markets, it's not hyper supply in DC that's been limiting the ability to push rents there at the pace of the rest of our portfolio. It's primarily been on the job side.

**Alex Goldfarb – Sandler O'Neill**

Okay. The second question is regarding your comments on preference for development versus acquisition. They seem to be consistent with what's been going on in practicality. You raised money over a year ago to go out and buy a bunch of stuff, and that's proven more difficult. Do you think the jump in rates will spur some of the merchant guys to want to sell quicker, given how rising rates could impact their IRRs, and maybe it's made their decision advance the decision? Or does the rise in interest rate not change the pace at which the merchant guys sell their product?

**Ric Campo – Camden Property Trust**

We thought that would happen in 2018, and it didn't. If you look at the stats on sales in 2017, the number of multifamily sales was down from 2016. We thought it was going to be down again for 2018 but turned out to be way up for 2018. That could happen. I think there's definitely more merchant builder stress from the standpoint of product they need to sell to be able to reload their balance sheet. If you go back to pre-Great Recession, most merchant builders kept building no matter what because they could guarantee debt with no tangible assets on their balance sheet and the banks let them do it. Today, the banks won't let them do it, so they do have to clear the asset to reload their pipelines. That is one difference that could impact and get merchant builders to be more constructive on selling at prices we want to buy at.

On the other hand, we thought that was going to happen in 2018 and it didn't. What we're also seeing though is instead of selling, people are refinancing. You could refinance a merchant builder deal with a high margin, basically taking all your cash out including equity, and sit with a higher-leveraged transaction without any equity in it. A fair number of them are doing that as well, holding the assets and putting them in a longer holding pattern. Ultimately, I think merchant builders do have to sell. The question is, are there going to be enough buyers to take up that inventory? I think right now there are. That's why we decided to lower our acquisitions guidance and increase our development. When we raised that capital, we talked about $500 million of acquisitions. We changed the mix a bit, even though that does change the timing of when we are able to enjoy those yields. I think that might be the case in 2019 as well, given the lower capital issue.

**Alex Goldfarb – Sandler O'Neill**

Thank you.

**Rob Stevenson – Janney Montgomery Scott**

Good morning. Alex, how much of the same store expense savings of moving down from 3.5% to about 3% guidance for the year is a timing issue versus stuff you expect to be sustainable into 2019 and beyond?

**Alex Jessett – Camden Property Trust**

None of it is timing at all. As I've said on a couple of past calls, you've got a couple of things that are occurring. Number one, people are not getting sick as often, which is really good news for all of us. The second thing is that we're becoming very efficient on our R&M and unit turnover cost. There is no reason to believe that should not be easily replicated in future years.

**Rob Stevenson – Janney Montgomery Scott**

So none of the savings is from property taxes that could wind up spiking back up in 2019?

**Alex Jessett – Camden Property Trust**

No. In fact if you think about where we are, we started the year with a 4% same store expense growth and we assumed property taxes would be 4.2%. We now assume property tax is going to be 6%, and yet we're at 3.05% same store expense growth. Property taxes were worse than expected, but all other categories were far better than expected overcoming this unexpected increase in Atlanta property taxes.

**Rob Stevenson – Janney Montgomery Scott**

Okay. Keith, of your better performing markets, which have the smallest gap between new lease and renewal growth rates? Which are closest to an inflection point of meeting or possibly crossing in the future?

**Keith Oden – Camden Property Trust**

Of our better performing markets, every one of them falls in for favor of renewals versus new leases. It's been that way for a number of quarters. Our 3Q18 numbers which I gave in my opening commentary were 5.5% on renewals and 3.1% on new leases. I'm looking at the detail and I don't see one where we're upside down one way or the other on renewals versus new leases. There may be one or two markets, but the preponderance of our markets continues to have renewals above new leases. My guess is that probably tightens in 2019, but I'd be surprised to see a shift in many of our markets between new leases and renewals.

**Alex Goldfarb – Sandler O'Neill**

Thank you.

**Trent Trujillo – Scotiabank**

Good morning. Thanks for taking the questions. One of your peers indicated that some of its markets haven't yet started the normal seasonal decline in rent growth that usually comes in the fourth quarter. Are you seeing this in a noticeable way across any of your markets in your portfolio? And if so, what would you attribute that to?

**Keith Oden – Camden Property Trust**

Ours looks like it has historically. If you look at the data that we have so far in October, we're basically flat on new leases and 5% on renewals. I think that's typical, and that's what we would expect. If you look at how we would have budgeted for the fourth quarter, that's pretty much in-line with where we would expect to be. No big revisions from our original forecast on our portfolio. I am not sure who that is, maybe they have a very different footprint than we do, but we're seeing what we historically see in the fourth quarter.

**Trent Trujillo – Scotiabank**

Okay. That's fair. Turning back to Houston, specifically the Camden McGowen development. Can you remind us where concessions stand on that asset, and what merchant builders are offering competitively in that area?

**Ric Campo – Camden Property Trust**

The developments today in Downtown, Midtown and probably the Galleria are still offering one to two months free, plus or minus. It depends on unit type, but that's very typical in the market still. It's interesting because people say, "How are you growing your same store portfolio revenue when there’s two months free in the development market?" On one hand, people would expect that to translate into the marketplace. When you think about the number of units you have to lease to maintain 95% plus or minus occupancy, it's not that many units. You don't have big pressure to give concessions in an existing portfolio when a development is 50% occupied. Every day that goes by without increasing occupancy, revenue from that unit is lost, like an airplane seat when the plane takes off. Merchant builders are very quick to the trigger on giving concessions and filling units up as soon as they can.

**Trent Trujillo – Scotiabank**

Thank you very much. I appreciate it.

**Alan Wai – Goldman Sachs**

Good morning. When we look at your lease spreads, it seems to imply that same store should be accelerating, but guidance implies that 4Q is slowing. I'm am not asking for a 2019 guide, but are leasing spreads telling us the right thing, or is it possible that occupancy or other factors in same store can slow in 2019 while leasing spreads accelerate?

**Keith Oden – Camden Property Trust**

I'm going to refer to the overall guidance that Witten has in his forecast. If you look at the U.S. overall, he has rates going up about 50 basis points. Looking at Camden's portfolio specifically in our 15 markets, he has the same 50 basis point acceleration into 2019. You're going to have ups and downs and variances based on the supply conditions in each of our markets. But overall, his judgment is that revenues are going to be up about 50 basis points in 2019 over 2018. I'll know better in a month or two how well our numbers are correlated or not correlated with Ron's forecast. We do back testing on all the work that he does, and he's been pretty good over the years in terms of his forecast for revenue growth. As we sit here today, that's the best evidence we have in our portfolio. We could in fact see a reacceleration in revenues in 2019.

**Alan Wai – Goldman Sachs**

That's helpful. Thanks.

**Karin Ford – MUFG Securities**

Good morning. Ric, you mentioned in your opening comments the in-migration into your markets from higher cost and tax regions. Have you seen any evidence of that? Can you talk about how you think that could contribute to demand?

**Ric Campo – Camden Property Trust**

The evidence is clear. If you look at the Census numbers for the last 10 years, you'll see that domestic out-migration of California is negative. You have people leaving California and going to Phoenix, Austin, and other places. Population has not declined in California. I'll use California as an example because it's so big and easy to talk about. You've had increases in population in California, primarily driven by immigration and births, and taken down by out-migration. Those numbers are readily available via the Census Bureau. Anecdotally when we talk to our Phoenix teams, for example, we have a lot of people renting apartments that are from California. Another interesting stat would be the cost of U-Hauls. It's cheap to rent a U-Haul from Phoenix to go to California, but more expensive from California to Phoenix because they end up with excess U-Haul trucks in these markets. It's definitely something that's going on and is supporting demand in our markets.

**Keith Oden – Camden Property Trust**

Migration is something we track carefully, and it’s been a huge part of our story in terms of the 15 markets we operate in. For 2019 across Camden's 15 markets, it's projected that we're going to get an overall in-migration of 447,000 people into Camden's 15 markets. What’s interesting is that within that we have two cities where it's projected to be negative. One is Los Angeles with an out-migration of 54,000 and the other is Orange County with an out-migration of about 7,000. Those are included in the 447,000 positive overall number. We have two markets without migration, both in California. To Ric’s point about Phoenix, Los Angeles is projected to have 54,000 out-migration compared to Phoenix at 54,000 in-migration in 2019. This is really an important part of the overall movement of people in large part to lower cost areas with less regulation. These numbers probably don't get into the impact of the overall SALT limitations on high property and state tax states. It'll be interesting to see.

**Karin Ford – MUFG Securities**

That's great color. My last question, you mentioned that you improved your efficiency on turnover and that's reflected in expenses. If you return to more normalized and average turnover levels, do you have any sense for how much that could impact expense growth?

**Alex Jessett – Camden Property Trust**

We've been at this level of turnover now for a couple of years. We'd have to do some math around if there was some sort of dramatic increase in moveouts and what the impact would be. At this point if you're looking at trends, the trends seem to be that we're going to have lower turnover for longer, based upon what we've seen in the last couple of years.

**Ric Campo – Camden Property Trust**

As I mentioned in my comments earlier, part of the expense control is our “Attack the Run Rate” initiative. It's about focusing on small ticket items on-site and in our corporate office that get done just because we've been doing them for a long time. It's focusing in on and making decisions on a lot of small stuff that adds up to a pretty nice number. Even though we are focused on our operating expenses all the time, this is an intense focus on making sure that every dollar going out the door is either a revenue enhancing dollar or a marketing dollar or one that can be justified from a business perspective. That's had a really big impact, and our teams have done a great job of embracing that concept. Oftentimes, when times are good, it’s easier to have expenses creep on you. We're at the point where our teams have really embraced this initiative. The idea is, it's in the run rate, right? It's not, let's save money this quarter or let's save money this year. Let's make sure that it's permanent and that it's in the run rate so that 2019 benefits from it as well.

**Karin Ford – MUFG Securities**

Thank you.

**Rich Anderson – Mizuho Securities**

Thanks. Good morning. People are trying to get 2019 guidance, but I'm going to see if I can get 2020 guidance out of you.

**Keith Oden – Camden Property Trust**

At least that's novel.

**Rich Anderson – Mizuho Securities**

When thinking about supply, Millennial demand is changing as they get older, you have a weak single-family home market, and interest rates up. As you look past 2019 and into 2020 and 2021, do you see the business basically better three or four years from now than it is today, or is it moving sideways? It's our sense that the days of high, single-digit growth out of the multifamily REITs even in the best of times is probably over, and it's more like a CPI+ type of business. I’m wondering how you feel about all these longer-term observations?

**Ric Campo – Camden Property Trust**

I feel pretty good about our business long-term or midterm. You can't go out more than 2020 or 2021. If you think about the fundamentals of the business, we're not getting disintermediated by Amazon. We don't have issues like that. Single-family homes are still hard to get. The average median home price is up. Incomes are not as high and are not growing as much. You have interest rates popping up, so it’s made homeownership more difficult. Even though from a demographic perspective, we know it's not so much the money as it is the demographic position of people. They're waiting longer to have kids and get married and form households, which creates demand for homes.

That said, I think our business is going to be reasonably good for the next two to four years, barring any major calamity or recession. I think the pressure on merchant builders and development continues to be there. I think ultimately you will see a peak in supply, and then it comes down in 2020, 2021, and 2022 unless this 3.5% GDP continues and job growth continues, and we have more legs up. I feel pretty good about our business.

**Rich Anderson – Mizuho Securities**

So 2020 is better than 2018?

**Ric Campo – Camden Property Trust**

It's a hard thing to say today, but when people ask me how I feel about our business over the next three to five years, I feel really good about it. Now if we have a recession between now and then, all bets are off if something changes dramatically. If you told me that 2018 has the same supply and demand economics, same job growth with interest rates up a bit, I would say that those years are going to be good for multifamily.

**Keith Oden – Camden Property Trust**

I would add to one of the points you raised regarding the weakness in home sales, which continues to be really puzzling or at least puzzling to a lot of people on the homebuilder side of things. It shows up in our numbers in moveouts to purchase homes. Conventional wisdom six or seven years ago was that the Great Recession was a cyclical event and that the homeownership rate collapsed as a result of the housing bust in the Great Recession. Most prognosticators at the time really believed that the homeownership rate would drift back up, but eventually we would get back up to the 18% or 19% levels of moveouts for home purchases in our portfolio that we historically saw before 2007, and it did. Moveouts to purchase homes bottomed at about 9.7% in our portfolio, which was crazy low and then it started to drift back up.

If you look at the numbers in our portfolio over the last year, it looks like we're getting kind of toppish on the moveouts number, and we're back down to 14.3%. We got as high as the low 15% range, but we're still far away from what you would think a normal moveouts to purchase homes rate in our portfolio is. I think you've got to start rethinking the cyclical versus secular argument in homeownership rate. If this is where we're going to be, then the metrics that we need going forward in terms of how much new supply could be dealt with, how many new jobs it's going to take to maintain the demand for multifamily in the traditional range, you just have to rethink all of those. It's almost never different this time, but it's been different this time for a long time in homeownership moveouts to purchase homes. It's starting to drift back down, and it's supported by the fact that a week or so ago they announced one of the lowest home sales numbers in a decade. It's an interesting time, and I think Ric is right that if you must be on one side or the other of that argument, I would prefer to be on our side of the argument.

**Rich Anderson – Mizuho Securities**

Thanks.

**John Pawlowski – Green Street Advisors**

Thanks for your comments on the reasonable cadence of development starts. Is $300 million of acquisition volume next year a fair betting line?

**Ric Campo – Camden Property Trust**

We haven't gotten to that point yet. We sold a lot of properties and churned the portfolio in the last three to five years. We don't have a lot of low-hanging fruit in terms of dispositions. It depends on the kind of market we have next year, but I don't see it being a robust acquisition year given what we're seeing or hearing right now. It's not in our guidance yet.

**John Pawlowski – Green Street Advisors**

Okay. In some of the really competitive markets like Phoenix, where cap rates are perhaps irrationally low right now, would you ever do something tactical, not a full market exit, but take another tranche of dispositions to sell into that competitive bid and perhaps reposition into a market outside of your current footprint that you think is less or more unappreciated?

**Ric Campo – Camden Property Trust**

We have exited markets in the past. We exited Las Vegas at a time where we knew it was accelerating, but because of the portfolio quality it was important for us to move out of that market. We like the markets we're in for all the right reasons. The issue with "tactical" hurts my head a little. On the one hand, you can take advantage of low prices, but then what do you do with the capital, the risk associated with the transaction, and reinvestment risk issues? If I really like the property long-term, it's hard for me to replace that property. I'm taking execution risk between getting it done. We go through lots of scenarios on whether we should sell our lowest or highest cap rate deals, and how that affects us long-term. When it makes sense to do transactions we do, given that we've sold $3 billion of properties in the last five years and done a couple of billion of development and a billion of acquisitions. We look at that, and sometimes it's interesting and sometimes it's not. I'm not sure what we're going to be doing over the next year or two in that regard though.

**John Pawlowski – Green Street Advisors**

Thank you.

**Hardik Goel – Zelman & Associates**

I wanted to get more detail on the expense side. When you look at taxes, has there been some sort of appeal success or something of that nature that's lowered the taxes as you would have expected them at the beginning of the year? What's your sense of how that's going to trend?

**Alex Jessett – Camden Property Trust**

Once again, we started the year thinking that property taxes were going to be up 4.2%. We now think they're going to be up 6%. That delta is entirely driven by higher-than-expected tax values in Fulton County in Atlanta. That's what we're having with property taxes. If you're looking at year-to-date property taxes and you're trying to understand how we get to the 6%, you can't forget that in the fourth quarter of 2017 we had about $1.5 million of property tax refunds almost entirely in Houston, and that is not going to be replicated. That's the delta if you're looking at it year-to-date, and you're comparing that to full-year, which once again we think is still 6%.

**Hardik Goel – Zelman & Associates**

Got it. That makes a lot of sense. One more question on your comments regarding supply. You talked about better visibility and the ability to see further now than ever before. As you look out, where do you see supply really peaking? Where can you say it's going to peak and then decelerate steadily? Is it 2020 or 2021? Where does supply go down meaningfully from?

**Keith Oden – Camden Property Trust**

Witten's forecast for 2020 completions across Camden's portfolio is basically flat in 2019, which is slightly down from 2018. If you're thinking big picture, Camden's platform has 138,000, 136,000, 138,000 for the progression of Witten through 2020. I think 2021 and 2022 would be the first years where you could have a shot at meaningfully less deliveries, and that is a function of all the push and pull and pressures Ric has described that merchant builders are dealing with. They're persistent and they're crafty. If there is a deal that can get done, they'll figure out a way to do it. I just think that the math is getting so difficult. As Ric mentioned, they're pretty stretched in terms of their total capacity to hold what they have and then start a new round, even if they can get the numbers to pencil. I think it's possible in 2021 and 2022 that you could see a meaningful pullback in supply for the first time in years.

**Hardik Goel – Zelman & Associates**

Thank you.

**Daniel Bernstein – Capital One Securities**

Good morning. Not to get too academic, but I wanted to follow-up on the conversation you had with Rich. Are you seeing any change in the average age of people living in your buildings and the average age of people moving out to homeownership?

**Ric Campo – Camden Property Trust**

We are seeing anecdotally more Baby Boomers moving in. These are people that live in suburbs, whose kids are gone, they live in a big house, and traffic is still awful across America. They're moving into the city and urban core. We have some properties, for example, in the Galleria area in Houston where the average age is probably 10 years older than our average age in our portfolio, primarily because the rents are much higher, and you need somebody in their 50s who has more income to be able to pay for that higher rent property. One of the things that's driving that to a certain extent, not just the traffic and the desire for people to be in more walkable areas and closer to amenities like the arts and things like that, but one of the things over the last 10 years that's really happened in this development cycle is that properties are not your 1980s or 1990s versions of apartments. When Baby Boomers walk in, it's like a hotel. All the amenities are high-end, the finishes are as high-end as any for-sale condo, so the product is more appealing to people today than it was in the past. It's definitely a migration.

If you look at the statistics on propensity to rent, it’s always very high up until the mid-'30s and then it starts falling off and you have the propensity to own. Over the last seven or eight years, the propensity to rent has increased for people over 50 and into their 60s, and that is a change. Fannie Mae did a study that you can find on the NMHC or Fannie Mae websites that shows the increased propensity to rent for older people. I think that's definitely a positive for our business, there's no question about that.

In terms of average age, it hasn't changed dramatically, maybe a year or so here and there. In terms of people moving out to buy houses, because it's so low today, the age has definitely increased for people buying houses due to student debt and issues like that which have limited their ability to buy a house.

**Daniel Bernstein – Capital One Securities**

I didn't know how much you track that specifically relative to the current situation. The other question I had involves the conversation on low cap rates, and I agree with everything you said where interest rates are the last thing to move cap rates. Have you seen an increase in leverage that buyers for that wall of private equity is using to get their IRRs? It's easy to track GSEs, it's easy to track the banks, it's not easy to track the actual LTVs that are in the non-bank financials out there. I don't know if you had any thoughts on whether LTVs are increasing for those private equity buyers?

**Ric Campo – Camden Property Trust**

I think the answer is no. Leverage is not increasing. People aren't using more leverage to get yields. As a matter of fact, there's a lot of very low leverage and no leverage buyers in the marketplace where they're not putting any debt on any property. When they do leverage, more than half of all the loans issued in multifamily are floating rate loans. When you look at the forward curve on LIBOR, for example, you can buy really cheap caps. On a relative basis, people are floating more than they're fixing and their leverage levels are not as high as you would normally expect.

**Daniel Bernstein – Capital One Securities**

I was thinking it would be going up at this point in the cycle given where cap rates are. That's good color. I appreciate it.

**Ric Campo – Camden Property Trust**

We appreciate you being on the call today. We will be at NAREIT in the next couple of weeks and I am sure I'll see a lot of you there. Thank you very much. See you at NAREIT.

*Edited for readability.*