CAMDEN
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Fourth Quarter 2019 Earnings Call
January 31, 2020 - 10:00 AM CT

Kim Callahan – Camden Property Trust

Good morning and thank you for joining Camden's fourth 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 fourth 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 attempt to complete our call within one hour, so 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 e-mail after the call concludes. At this time, I'll turn the call over to Ric Campo.

Ric Campo – Camden Property Trust

Good morning, and welcome to the beginning of the new decade. Our on-hold music today featured five seemingly random songs, but there's always a method to our madness. There's also a contest, but with a twist. We know that our success is driven by our Camden colleagues. So, the contest is for them. The five songs were selected by our executives on the call today: Kim Callahan, Alex Jessett, Malcolm Stewart, Keith Oden, and me.

Each was asked to select their favorite song of the decade that just ended. The five songs were Call Me Maybe by Carly Rae Jepsen, Humble and Kind by Tim McGraw, Uptown Funk by Bruno Mars, The Fighter by Keith Urban and Carrie Underwood, and Can't Stop the Feeling by Justin Timberlake. The first person to e-mail Kim correctly,

matching the executive with the song they selected, will get a shout out and a prize. Good luck.
In order to move forward into the next decade, I think it's always important to look back and take stock of our accomplishments in the last decade. Here are a few highlights: We improved the quality of our portfolio and created value for our stakeholders through $3 billion in sales of properties with an average age of 23 years; $2.3 billion of acquisitions with an average age of 4 years; $3 billion of development, creating $1.1 billion of value for stakeholders; $500 million of redevelopment and repositioning of 40,000 of our apartment homes, creating $525 million of the value.

We improved our debt-to-EBITDA from over 8x to just under 4x, with all assets unencumbered and all debt unsecured. We doubled our AFFO per share and nearly doubled our dividend. We built an amazing culture of employee excellence and were included on the Fortune 100 Best Companies to Work For list every single year in the decade, with a number of top 10 finishes. Team Camden ended the decade with a remarkable performance in 2019, exceeding all of our established goals, and we are positioned for a strong start to this new decade as we continue to improve the lives of our employees, our customers and our stakeholders, one experience at a time.

The best is yet to come. Don't believe it? Just watch.

Keith Oden – Camden Property Trust

Thanks, Ric. Consistent with prior years, I'm going to use my time on today's call to review the market conditions that we expect to see in Camden's markets during 2020. I'll address the markets in the order of best to worst by assigning a letter grade to each one, as well as our view on whether we believe that market is likely to be improving, stable or declining in the year ahead. Following the market overview, I'll provide additional details on our fourth quarter operations and our 2020 same property guidance. We anticipate same property revenue growth this year in the range of 2% to 4% in each of our markets, with the exception of Phoenix, which remains our top market and should produce revenue growth in the 5% to 6% range.

The weighted average growth rate is 3.2% at the midpoint of our guidance range, and all of our markets received a grade of C+ or higher this year. As I mentioned, our top ranking for 2020 goes to Phoenix, our #1 performer in 2019 with 5.9% revenue growth and a 3-year average revenue growth of 4.9%. We give Phoenix an A rating and a stable outlook. Supply and demand metrics for 2020 look strong, with estimates calling for nearly 50,000 new jobs and only 6,000 new apartments coming online this year.

Up next are Raleigh and Atlanta, both earning an A- rating with stable outlook. In Raleigh, new developments have been coming online steadily with 5,000 new units delivered last year and another 6,000 expected this year. Job growth has also been strong and 20,000 new jobs are projected for 2020. Employment growth was also strong in Atlanta last year, with approximately 70,000 new jobs added, and projections call for 45,000 additional jobs in 2020. Completions remained steady with 9,000 new apartments delivered last year and 11,000 more scheduled for this year.

Denver received an A- rating with a declining outlook. Our Denver portfolio has been a strong performer, averaging nearly 5% annual same property revenue growth over the last three years, but we expect market conditions to moderate over the course of 2020 given the somewhat elevated levels of new supply. Over 30,000 new jobs are expected in 2020 with around 9,000 new units scheduled for delivery.

Orlando makes our top five cut again this year, receiving a B+ rating with a stable outlook. Job growth has been strong in Orlando over the past few years and that trend should continue. However, the strength of the Orlando market has attracted more new development activity, so the level of supply is rising. 35,000 new jobs are expected there in 2020 with 8,000 to 10,000 completions.

We gave Southern California and DC Metro each a B+ rating with a declining outlook. Our portfolio in Southern California faces healthy operating conditions with balanced supply and demand metrics. But after several years of relative outperformance, we expect some moderation in pricing power this year. Job growth should be around 130,000 with completions of 25,000 expected in 2020. Our DC portfolio placed in our top five for revenue growth last year, but elevated levels of supply coupled with uncertain employment growth forecasts, political risk and an election year make us a bit more cautious on our outlook for DC this year. Supply should remain steady with completions of around 13,000 units in 2020, but most job forecasts are predicting a noticeable slowdown in DC this year which could impact our pricing power in that market.

In Tampa conditions are currently a B with an improving outlook. Tampa's new supply should come down slightly to around 4,000 units with 20,000 new jobs projected, putting the jobs-to-completion ratio at a healthy level of around 5x. Our Tampa portfolio posted 3.1% same property revenue growth last year and we believe their growth rate could accelerate during 2020.

Austin and Charlotte both moved up in our rankings this year from B- grades to Bs with stable outlooks. Our 2019 budgets for Austin and Charlotte originally called for revenue growth in the low 2% range. However, market conditions firmed over the course of the year, resulting in actual revenue growth of over 3% for 2019 in each of those markets. We believe their revenue growth for 2020 will be in a similar range to last year. New supply remains steady in Austin with approximately 10,000 new units anticipated this year, but the economy is strong, and the city should add over 30,000 new jobs again this year. Conditions in Charlotte are similar with 25,000 new jobs projected and 8,000 new units expected for 2020.

Conditions in Dallas firmed a bit since last year's report card and the market earned a B- with a stable outlook again this year. New supply has been persistent in Dallas with 20,000 completions recorded in both 2018 and 2019, and another 20,000 units projected to deliver this year. Job growth continues to be a bright spot with

50,000 to 60,000 new jobs expected. But given the current supply and demand metrics, we think the Dallas market will remain very competitive in 2020.

In Southeast Florida market conditions rate a C+ but with an improving outlook. New supply and job growth have remained steady over the past few years and 2020 estimates call for over 30,000 new jobs and 9,000 new units. Competition from for-sale and rental condominiums is still an issue in that market, but we expect slightly better operating conditions in 2020 and an improvement from the 1.4% same property revenue growth achieved last year.

And Houston receives a C+ rating with a stable outlook as we expect to see limited revenue growth again this year. Estimates for new supply in 2020 vary widely from a low of 9,500 to over 20,000 units coming online this year, so the market is definitely going to see an increase over the roughly 6,000 units delivered in 2019. Annual completions in Houston have ranged anywhere from 5,000 units to 22,000 units per year over the past 20 years, so 2020 supply levels will be moving back toward historical long-term averages. Houston's job growth may also revert to its long-term average of around 45,000 new jobs per year, resulting in limited pricing power and revenue growth for our portfolio this year.

Overall, our portfolio rating is a B+ again this year, with most of our markets expected to moderate in revenue growth during 2020. As I mentioned earlier, all of our markets should achieve between 2% and 4% revenue growth this year, with the exception of Phoenix budgeted slightly higher. And we expect our 2020 total portfolio same property revenue growth to be at 3.2% at the midpoint of our guidance range.

Now a few details on our 2019 operating results. Same property revenue growth was 4.1% for the fourth quarter and 3.7% for the full year. Our top performers for the quarter were Phoenix at 6.3%; Raleigh at 6.0%; San Diego/Inland Empire at 5.3%; DC Metro at 4.8%; and Denver at 4.7%. Rental rate trends for the fourth quarter were as expected with new leases down slightly at (0.2)% and renewals up 5.1% for a blended rate of 2.2% growth. Our preliminary January results indicate 5.4% growth for renewals and 0.8% for new leases for a blend of 3.1%, which is consistent with January 2019. February and March renewal offers are being sent out at an average increase of over 5%.

Occupancy averaged 96.2% during the fourth quarter compared to 96.3% last quarter and 95.8% in the fourth quarter of '18. January occupancy has averaged 96.2% compared to 95.9% in January '19, so we're off to a good start this year. Annual net turnover for 2019 was 100 basis points lower than 2018 at 43%. Move-outs to purchase homes were 15.9% for the quarter and 14.6% for the full year, compared to 15.5% for fourth quarter of '18 and 14.8% for the full year of 2018.

At this point, I'd like to turn the call over to Alex Jessett, Camden's Chief Financial Officer.

Alex Jessett – Camden Property Trust

Thanks, Keith. Before I move on to our financial results and guidance, a brief update on our recent real estate and capital markets activities. As mentioned on our prior quarter's call, during the fourth quarter we stabilized our Camden McGowen Station development in Houston, Texas, and we began construction on Camden Atlantic, a 269-unit, $100 million new development in Plantation, Florida.

Late in the fourth quarter we acquired Camden Carolinian, a recently constructed 186-home apartment community located in Raleigh, North Carolina, and Camden Highland Village, a 552-home apartment community with an adjacent 2.25-acre development site located in Houston, Texas. The combined purchase price of $222 million for our fourth quarter community acquisitions was significantly below replacement cost and we expect these acquisitions to produce a stabilized yield of approximately 5%. For full-year 2019, we completed acquisitions of four communities with 1,380 apartment homes for a total cost of approximately $440 million, and we acquired three undeveloped land parcels for a total cost of approximately $37 million.

Also, late in the fourth quarter we completed the sale of our Corpus Christi, Texas portfolio and exited that market. The assets sold included two wholly-owned communities with 632 apartment homes and one joint venture community with 270 apartment homes. Our net proceeds were approximately $75 million. This portfolio had an average age of 22 years with average monthly revenue of $1,300 per door, and annual capex of approximately $2,000 per door. Using actual capex, this disposition was completed at a 5.5% AFFO yield, generating a 12.75% unleveraged IRR over a 20-year hold period. Based on a broker cap rate, which assumes $350 per door in capex and a 3% management fee on trailing 12-month NOI, the cap rate would have been 6.25%. Our time in Corpus definitely put sunshine in our investors' pockets. Subsequent to quarter end we acquired 4.9 acres of land in Raleigh for approximately $18.2 million for the future development of approximately 355 apartment homes.

On the financing side, as previously disclosed during the fourth quarter, we completed a $300 million 30-year senior unsecured bond offering with an all-in interest rate of 3.4%. We used the proceeds for the early redemption of our existing $250 million 4.8% bonds due June of 2021, and the prepayment of our $45 million 4.4% secured mortgage due 2045. These transactions locked in 30-year debt at near all-time low yields and extended the average duration of our debt by approximately three years. After taking into effect these transactions, 100% of our debt is now unsecured and all of our assets are now unencumbered. In conjunction with the redemption and prepayment, we incurred during the fourth quarter a one-time charge to FFO of approximately $0.12 per share. Our balance sheet remains strong with net debt-to-EBITDA at 3.9x and a total fixed charge coverage ratio at 6.4x. We ended 2019 with only $44 million outstanding on our $900 million unsecured line of credit. Our current line of credit balance after the January 2020 payment of our fourth quarter dividend and the payment of property taxes, which are disproportionately due in January, is approximately $180 million. At quarter-end we had $772 million of wholly-owned developments currently under construction, with only $359 million remaining to fund over the next two years.

Moving on to financial results. Last night we reported funds from operations for the fourth quarter of 2019 of $125.6 million or $1.24 per share, exceeding the midpoint of our prior guidance range by $0.01 primarily from higher same store net operating income resulting from higher levels of occupancy and other property level income and continued lower turnover costs, lower taxes and general cost control measures. For 2019 we delivered full-year same store revenue growth of 3.7%, expense growth of 2.0% and NOI growth of 4.7% as compared to our original same store guidance of 3.3% for revenue, expenses and NOI.

You can refer to page 27 of our fourth quarter supplemental package for details on the key assumptions driving our 2020 financial outlook. We expect our 2020 FFO per diluted share to be in the range of $5.30 to $5.50 with a midpoint of $5.40 representing a $0.36 per share increase from our 2019 results. After adjusting for the $0.12 non-core prepayment penalty incurred during the fourth quarter of 2019, the midpoint of our 2020 guidance represents a $0.24 per share core increase resulting primarily from:

- An approximate $0.19 per share increase in FFO related to the performance of our same store portfolio. At the midpoint we are expecting same store net operating income growth of 3.3%, driven by revenue growth of 3.2% and expense growth of 3.0%. Each 1% increase in same store NOI is approximately $0.0575 per share in FFO.
- An approximate $0.17 per share net increase in FFO related to operating income from our non-same store properties, resulting primarily from the incremental contribution of our four acquisitions completed in 2019 and our 10 development communities in lease-up during either 2019 and/or 2020, partially offset by the recently completed disposition of our two wholly-owned Corpus Christi communities. And,
- An approximate $0.04 per share increase in FFO due to an assumed $300 million of proforma acquisitions spread throughout the second half of the year at an initial yield of 4.5%.

This $0.40 cumulative increase in anticipated FFO per share is partially offset by:

- An approximate $0.02 per share decrease in FFO from an assumed $200 million of proforma dispositions at the end of 2020.
- An approximate $0.04 per share decrease in FFO resulting primarily from the combination of lower interest income resulting from lower cash balances, and higher corporate depreciation and amortization due to the implementation of a new cloud-based accounting and human resources system. Our combined general and administrative, property management and fee and asset management expenses are effectively flat year-over-year.
- An approximate $0.07 per share decrease in FFO due to higher net interest expense resulting primarily from actual and projected 2019 and 2020 net acquisition and development activity, partially offset by the

2019 accretive refinancing of debt. At the midpoint our guidance assumes $300 million of new unsecured debt issued in the first half of the year. And finally,

- An approximate $0.03 per share decrease in FFO due to the additional shares outstanding for full-year 2020 following our first quarter 2019 equity issuance.

At the midpoint of 3% for our expense growth, we are anticipating that most of our expense categories will grow at approximately 3% with a notable exception of property insurance, which is anticipated to increase at approximately 20% due to the currently unfavorable insurance market. Property insurance only comprises 3% of our total operating expenses. Property taxes represent 1/3 of our total operating expenses and are also projected to increase approximately 3% in 2020, more in-line with long-term trends. The previously discussed savings on Texas property tax rates as a result of the passage of Texas House Bill 3 and Texas Senate Bill 2, which reduced school district tax millage rates by approximately $0.07 in 2019 and an additional $0.06 in 2020 and capped local government's tax revenue increases at 3.5% for cities and counties and at 2.5% for school districts without voter approval, are offset by property tax increases in other markets including Washington, DC, North Carolina, Georgia and Florida.

Page 27 of our supplemental package also details other assumptions, including the plan for $100 million to $300 million of on-balance sheet development starts spread throughout the year. We are finalizing our pilot of Chirp, our mobile access solution, and we'll update you further as we firm up our deployment schedule. Our 2020 guidance does not assume any incremental FFO impact from this initiative, which we expect to be meaningfully accretive in 2021 and beyond.

We expect FFO per share for the first quarter of 2020 to be within the range of $1.29 to $1.33. After excluding the $0.12 per share fourth quarter 2019 prepayment penalty, the midpoint of $1.31 represents a $0.05 per share decrease from the fourth quarter of 2019 which is primarily the result of:

- An approximate $0.02 per share decrease in sequential same store net operating income, resulting primarily from the reset of our annual property tax accruals on January 1 of each year, and other expense increases primarily attributable to typical seasonal trends including the timing of on-site salary increases.
- An approximate $0.015 per share decrease in FFO due to a combination of lower interest income resulting from lower cash balances and lower fee and asset management income.
- An approximate $0.01 per share decrease in FFO due to higher interest expense.
- An approximate $0.01 per share decrease from our previously disclosed fourth quarter 2019 business interruption insurance recovery, and
- An approximate $0.01 per share decrease from our wholly-owned Corpus Christi dispositions.

This $0.065 per share aggregate decrease in FFO is partially offset by an approximate $0.015 per share incremental increase in FFO from our recently completed Houston and Raleigh acquisitions.

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

Keith Oden – Camden Property Trust

Before we start our question and answer period, we'll let our Camden folks know that we do have a winner to our Camden contest. The first person to correctly identify the songs with the person that submitted them is Loris Brooks, who is our Senior Benefits Administrator here in Houston. She correctly identified Call Me Maybe by Carly Rae Jepsen with Kim Callahan, Humble and Kind by Tim McGraw with Malcom Stewart, Can't Stop the Feeling by Justin Timberlake with Alex Jessett, Uptown Funk by Bruno Mars with Mr. Campo, and shockingly, The Fighter by Keith Urban and Carrie Underwood with me. And now we'll turn it over and open it up to questions. Thank you.

Nick Joseph – Citigroup

Thanks. Starting on Houston. You did 2.1% same store revenue in 2019. It sounds like you're expecting a similar level of growth this year. But given the increasing supply and the job growth comments that you made, I'm wondering how you can tie those two and what you're seeing more from your portfolio specifically?

Keith Oden – Camden Property Trust

Yes, Nick, you're correct. Our original guidance last year for Houston included 2.1% growth, and that's about where we are this year. One of the challenges on the Houston data is you have estimates from our providers that range all the way from new completions at a low of about 9,500 apartments to almost 20,000 on the high end. There's a meaningful difference in that spread. We took the average and are planning our game plan around the average of those two outliers. We have five data providers, and the average is about 14,000 to 15,000 apartments. That doesn't seem unmanageable in an environment where we think we're still going to get 45,000 to 50,000 new jobs, and the estimates on the job growth are much more tightly bunched than the new supply. My guess on the new supply number is there's still a fair amount of uncertainty as to the timing of deliveries, which seem to always be getting extended further and further out.

The second part of that is that our portfolio has a pretty decent mix of urban core and suburban assets. Even though a fair amount of the supply is coming in the suburbs, more so this year than in previous years, we still think that our balanced portfolio is well positioned. We're probably going to see a little bit more impact as we did last year in the urban core because that's where the current lease-ups are happening, and we're probably going to get a little bit more impact late in the year from some of the suburban assets. But all in all, we still feel pretty good about our ability to grind out another 2% in a Houston market that's going to continue to be challenged. There's nothing new or interesting about Houston being countercyclical to the rest of our portfolio. This is about the seventh or eighth time in 30 years that we've seen results like this where Houston is definitely countercyclical. People dig into it and try to put a lot of analysis around it, but I don't think you really need to overthink it too much. The reality is that it's just as stark as this - low oil prices are really good for everybody else in the country and not good for Houston. The reverse is also true. So, we've had a lot of times in the past where Houston was an outlier to the top end of the range. Right now, it's an outlier to the bottom.

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

Let me add an interesting thing that will apply to all markets including Houston, but I think it's really supported better in Houston than the other markets. We talked to our data providers including Ron Witten. I'm going to paraphrase what Ron said on his last client call with us, which we did last week. He said that apartment demand is disproportionally strong versus the underlying economy. If you look at the underlying economy and you look at job growth slowing, with supply at all-time highs, you would ask how you could have revenue growth in apartments when you have supply with the backdrop of job growth falling year-over-year? The answer is that we have this really interesting demographic tailwind. “Tailwind” is the term that Ron uses, and I think it applies to Houston as well. You have continued growth in young adults who have a high propensity to rent apartments. and you have lifestyle folks and non-couple types who have a higher propensity to lease, and there's more of them today. When you look at propensity to rent for every demographic age group all the way up into age 60s, those cohorts have grown dramatically in terms of propensity to rent. People in their 50s used to buy houses or stay in houses if they were already in houses. But now they're actually selling their houses and renting.

So, the renter population is increasing at a faster rate than we would ever expect given the backdrop of job growth. One of the other really interesting studies that came out was Freddie Mac’s housing summary in 2019. The data was reported in the Washington Post recently that 40% of renters said they will likely never buy a house, and that's up from 23% of renters saying that in 2017. And then 80% of the 40% say that that rent fits them better for their lifestyle. They don't want a mortgage. They want flexibility and the optionality of being able to move whenever their lease is up. I think that continues to drive all the markets including Houston. Houston does have more supply coming in on a relative basis than it did in the last few years, so it's keeping that revenue growth muted. But ultimately, I think the demand side of the equation is definitely far greater than the economy would indicate.

<u>Nick Joseph – Citigroup</u>

Thanks. That's very helpful. And quickly on DC. You mentioned political risk in an election year. What have you seen in DC in election years and the following year that's different than other years?

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

We have done some analysis on election years versus the overall economy in DC, and interestingly enough it picks up during the election year. Then it depends on who gets elected. If you have an incumbent that gets elected, you don't have a flurry of changes. You don't have lobbyists now that need to retool because they have a new administration. If you have a new administration, you tend to have more growth in DC during that period because you have the existing incumbent lobbyist and businesspeople having to retool and figure out how to improve their position vis-à-vis the new administration. So generally it helps the economy in DC and nationally leading up to an election, then DC actually benefits if there's a change of administration.

Nick Joseph – Citigroup

Thank you.

John Kim – BMO Capital Markets

Thank you. Regarding Phoenix, it continues to be a strong market as you're forecasting this year as well. When do you think development will pick up in the market to meet that demand, and why hasn't this occurred yet?

Keith Oden – Camden Property Trust

In our Phoenix numbers, John, we've got completions picking up slightly in 2020. We were at about 6,800 delivered units last year, and it looks like we're projecting about 7,600 units this year, so that's about a 10% increase. That's probably still not sufficient to get ahead of the demand. One of the things about Phoenix that's different than a lot of other markets that we operate in is the lack of competition that we have from public companies. There are also fewer merchant builders that are indigenous to Phoenix than in some of the other cities that we build in. So, you have a different embedded base and a little bit different competitive profile. I'm not aware of any other public companies that have anything currently under construction in Phoenix. There may be one or two but it's minimal, as opposed to some of our more well-traveled markets like Washington DC, Southern California, the Florida markets, and even Denver and Dallas. It's just a different profile. My guess is that if you look at what the projected job growth is in Phoenix this year, the consensus number is somewhere around 35,000 jobs. If we get 7,500 apartments that's roughly equilibrium. I just don't think the capacity is there to ramp up the way some of the other markets can and have historically. But good results like that ultimately will attract competition. I think a good test case of that is Denver, which we operated in with very little outside competition from the public companies for a number of years, and that's obviously changing as well. So, I'm guessing it'll ramp up.

Ric Campo– Camden Property Trust

I agree with Keith in the sense that the pipelines in these markets are pretty much as full as they can get. When you look at the permit data, we're at peak times in most of these markets. The challenge that we and other developers have is that it's really hard to make numbers work in lots of markets, including Phoenix. Construction costs continue to go up faster than rental rates, and it's hard to make those numbers work. I think most people would like to ramp up their business, but they really have a hard time ramping up from this high level already.

John Kim – BMO Capital Markets

Okay. My second question is to the JT fan - Alex. What are your views on moving to a core FFO per share guidance number and the pros and cons of reporting NAREIT versus core?

Alex Jessett – Camden Property Trust

You know, that's interesting because I heard yesterday that probably one of the last hangers-on of not having core FFO has gone over to the dark side. So, at this point in time, we plan on reporting FFO based upon the NAREIT white paper. I think there's a lot of importance around doing that. If you think about it, the SEC enables NAREIT to have a non-GAAP measure as long as it's consistently applied. We're going to keep with that and we're going to consistently apply it based upon the white paper at least for the foreseeable future.

John Kim – BMO Capital Markets

Thank you.

Shirley Wu – BofA Global Research

Hey guys, thanks for taking the question. My first question is actually a follow-up to Nick's question on Houston. I think on last quarter's call you mentioned that historically 40% to 50% of your demand in household formation was driven by jobs. That capture rate actually fell last year to 15%, but you are actually seeing a more positive turnaround? Could we get a little bit of extra color in terms of how that has continued to play out, or if that turnaround has continued to improve?

Ric Campo – Camden Property Trust

We have seen a higher capture rate of multifamily versus single-family. We made that comment on the last call, and it was interesting because we dug into the data and it was very unusual for single-family demand to exceed multifamily demand in Houston or in any market, because multifamily demand has continued to outstrip single-family demand from a rental perspective. It was just an aberration. We had our data providers look at it, and part of it was that when the job growth happened, people were already here because Houston did have the downturn with the energy business. You had 80,000+ jobs that were lost in the energy business, and a lot of those people lived in homes. When the new jobs were created, those people took those jobs. They were already in either a rental home or an owned home, and the demand for multifamily or the competition for those housing units went to single-family as opposed to multifamily. That has turned around now because we've added more jobs and we've also seen the in-migration rate for people moving into Houston improve and go up. During the 2014 - 2016 timeframe and even before that, people were coming here because you could get a job easily. Then during the energy downturn it wasn't as easy, and jobs weren't as plentiful. We didn't have negative job growth, but people heard that and then didn't move to Houston to take a job.

The other thing that was happening at the same time was the historically low unemployment rate in every city, so a young adult can get a job in pretty much any city in America if they want to stay there. There is a little bit of a decline in migration rates because of that as well. I think migration rates overall in the country are down because of this very tight labor market. If you can get a job in the city you live in, you don't necessarily move out of that other city or move to another city to get the job. That might be a little different for the coastal cities. You still have out-migration in California and New York and other places for tax reasons and high cost-of-living reasons and things like that. We have definitely seen the capture rate for multifamily demand increase this year. We think it's going to increase next year and we'll continue to outstrip single-family demand versus multifamily.

Shirley Wu – BofA Global Research

Got it. That's helpful. My second question has to do with turnover. I think turnover has continued to trend down across the board for all your competitors, but it's gone so low. Do you think there will be a continued deceleration in turnover? Or do you think it's going to taper off or pick back up?

Keith Oden – Camden Property Trust

I don't know, Shirley. For the last five years it's ticked down in our portfolio, and every year I muse out loud that we've got to be approaching the limits of what the turnover rate can fall to. But it fell again last year and I think given a lot of the factors that Ric mentioned about the demographics, we have to change our thinking about what turnover rates are likely to be in the future. Five years is more than enough to call a trend. I think we're probably in a permanently lower turnover part of the cycle and this is likely to continue. It's like the falling homeownership rates. It's hard to know where it stops, but at some point you've got to believe that it will reach some logical end point or low point. We haven't seen it yet.

Shirley Wu – BofA Global Research

Got it. Thank you.

Rich Anderson – SMBC Nikko Securities

Thanks. Good morning. I'm still picturing Ric at a Bruno Mars concert.

Ric Campo – Camden Property Trust

We had him here for the Friday night of Super Bowl and we went to that concert.

Rich Anderson – SMBC Nikko Securities

Ok. Last year you started from a same store NOI line at 3.3% and you ended the full year at 4.7%. It's precisely the same number this year to start again - NOI not revenue - at 3.3%. I'm curious how much 2020 is perhaps going to look like 2019, where you set a reasonable but perhaps beatable same store profile as we go through the year? Or do you feel like 2020 is different than 2019 in that regard?

Keith Oden – Camden Property Trust

Rich, I'm going to answer your question on the revenue side of things because there are a lot of things that happen on the expense side. On the revenue side of things, you're right. We went out last year with original guidance of 3.3%. Our forecasting and modeling had occupancy rates pretty much in-line with what the prior year did. In 2018 we hit 95.8% occupancy portfolio-wide, which was the highest occupancy level for same store that we've ever had. If you go back 20 years, our 20-year average for same store occupancy is about 94.6%, and suddenly we got this increase in the occupancy rate. We had what we thought would probably be a peak of 95.8% in 2018 and those felt like crazy high numbers. We thought maybe we could maintain that, so that's what we modeled in 2019. The 3.3% had an expectation of somewhere around 95.7% or 95.8%. As it turns out, the occupancy rate over the course of the year ticked up and we ended up averaging 96.1% for 2019, which explains the lion's share of the difference between a 3.3% revenue growth and a 3.7% revenue growth for the year. There were a few other ins and outs, a few outperformances, but the lion's share of that was the increase in the occupancy rate. So, the question is really if you are taking a 30-year high occupancy rate and saying that's going to be repeatable. In our world it looked like the 96.1% occupancy rate was a little black swanish, so naturally there's a little bit of reluctance to repeat that as far as modeling for 2020.

We moderated the occupancy rate a little bit in light of two primary facts. We know that deliveries in Camden's portfolio of new supply are going to be up about 15,000 apartments over last year. That's about a 10% increase, so we know we're going to get more new units than we had last year. The flip side of that is we also know that based on the job growth estimates in Camden’s portfolio, job growth across our platform is coming down somewhere around 100,000 jobs over the course of the year. So, you’re going to get fewer jobs, you're going to get more supply, and it just feels to us like we're probably going to have a little bit different supply/demand challenge in 2020 than we had last year. If we end up catching lightning in a bottle again and we average something in the 96.1% range, that's captured by the high end of our revenue range for this year at 3.7%. That's how we ended up settling on our guidance for this year.

Rich Anderson – SMBC Nikko Securities

Ok. Based on everything you just said there - fewer jobs, more supply, and in your world decelerating revenue at least from your standpoint today - yet you're ramping development $100 million more of projects sequentially versus the third quarter on tap now. How does that reconcile based on what you just said? You're showing some confidence in the development side, yet you're playing it a little closer to the vest on the operating side.

Ric Campo – Camden Property Trust

It's primarily because the development starts are lumpy. You put a property under contract and it takes you a while, especially in California, to get permits. We've been consistent in saying that we'll be a $200 million to $300 million per year development start company. If you go back to our peak development, we definitely have throttled it back a bit. But on the other hand, when you look at going forward, I think the $200 million to $300 million is a steady state - not necessarily an overly bullish view, but just a more moderate view. When you look at what's happening in the acquisition market, cap rates continue to compress to levels that I never thought I could imagine when people are paying sub-4% cap rates in Dallas and Austin and other markets like that. So, it's really the spread between where we can invest our capital via acquisitions versus development. Development still gets paid very well from a premium perspective compared to acquisitions.

Rich Anderson – SMBC Nikko Securities

Ok. Fair enough. Thanks very much.

Austin Wurschmidt – KeyBanc Capital Markets

Thank you, and good morning. The other income per occupied unit accelerated this quarter, and I'm interested if that was driven primarily by parking fees and the rollout of the smart home technology initiatives you've discussed? What do you expect other income growth could look like in 2020?

Alex Jessett – Camden Property Trust

We didn't really pick up much from smart access. We do have our parking initiatives, which we're starting to get some traction on, and we're also getting a slightly higher amount of recapture on our utility income. That's what you're seeing in the fourth quarter. If you go into 2020, we're basically assuming that our non-apartment rental income will be in-line with our apartment rental income. You've got other income, but we also have parking revenue which we're not calling other income, we're calling rental revenue. When you put that acceleration in there as well, it should all be in-line so there should not be a dilutive impact in 2020 from other income.

Austin Wurschmidt – KeyBanc Capital Markets

Got it. Appreciate that. Sticking with you, Alex, as far as the balance sheet, where do you expect to finish the year from a leverage perspective and what would get you more comfortable levering up from the current levels of around 4x?

Alex Jessett – Camden Property Trust

We've always said that we're comfortable in the 4x to 5x range. We're here today at 3.9x so obviously we've got a little bit of capacity. When we look at our models, we've got ourselves around mid-4x by the end of the year. Obviously we'll keep watching that closely and make sure that we understand what our capital raising alternatives are throughout the year.

Austin Wurschmidt – KeyBanc Capital Markets

Thank you.

Alex Goldfarb – Piper Sandler & Co.

Hey, good morning. Two questions. But first on the NAREIT FFO versus core, our preference would be NAREIT FFO which makes comparability easier. With core FFO everyone picks their own metrics and makes it tough for comparison.

Alex Jessett – Camden Property Trust

Hopefully you got in my answer that I agree with you.

Alex Goldfarb – Piper Sandler & Co.

That was pretty darn clear. Two questions. First, going back to Nick's question on Houston. I hear you, Keith, that Houston has gone through booms, busts and been a great market over time. But still, since the oil bust it has lagged. To Ric's point on cap rates and where things are trading, it would seem like there's an arb here where you can trim some of your Houston exposure and reinvest that in other markets at an accretive spread, whether it's markets with the same cap rate but faster growth, or maybe development. Can you talk about whether with almost north of 11% of Camden in Houston it makes sense given how the market has performed to have maybe 8%? I don't know what the number is, but maybe something lower is better, and you put that money in markets that are showing more consistent growth?

Keith Oden – Camden Property Trust

When I think of growth, I look at it over a long period of time, Alex. The variability from year-to-year in a portfolio like ours is not that concerning to me, it's more what's the long-term growth has been. If you go back to our 20-year history, Houston has outperformed most of our other markets over that period on a pure NOI basis. It tends to be a little bit more volatile for sure, but in the context of what we're trying to achieve - which is total shareholder return and growing NOI over a long period of time - it still fits what we're trying to do very well. Regarding the timing, what's your exposure today and where is it going? I think given the size of the Houston market somewhere around 11% or 12% makes sense for a long-term target. But having said that, it behooves us to be opportunistic as to when we put money to work in these markets. Not necessarily in tune with whether the market is at the top of the peer group today, it's more where will it be over the next 10 years.

If you think about it from a timing standpoint, we just bought an asset in Houston in the fourth quarter that we think was an extraordinary value play. We think we bought that asset at a roughly 30% discount to replacement cost at a 5% stabilized yield. Those are numbers, certainly the replacement cost numbers, that you can't touch that in any of our other markets. If you're thinking about this as a 5- or 10-year horizon, that's an incredible play. To your point of could you be selling Houston now and lightening up and redeploying the capital? Sure, you could do that. But if Houston right now screens as one of our most attractive acquisition opportunities, then it would hurt my brain in a really bad way to be thinking of Houston as a fantastic acquisition market and then disposing assets into that. It's just hard for me to think of it being a great buy market and a great sell market at the same time. Having said that, we clearly have the opportunity when Houston is in a more recovered state and assets aren't trading at a discount to replacement cost to sell some of our older assets in Houston at an appropriate time, which we don't think is now. But to do that would bring our exposure back down to the level that we want it to be at and we'd end up with a newer, higher quality portfolio in Houston. We'll just live with the timing aspects that are associated with that.

Alex Goldfarb – Piper Sandler & Co.

Okay. That's helpful. Second is on development. You just bought the Raleigh site and you also issued some ATM. Can you talk about where you see new development yields today when you're starting projects? I think your stabilized assets are 5% or so? Where are you underwriting development yields today? Just understanding how that compares to where you raise capital and the spread.

Ric Campo – Camden Property Trust

For the development yields that we're targeting today, we're still targeting suburban development deals in the 6% range and urban development deals in the low-5% range. In terms of the spread, I don't think of the spread to issuing capital today. We think of it on a broader basis, so the way we think about our cost of capital is it's our long-term weighted average cost of capital. With a balance sheet that's about a 75% equity and 25% debt, when you do a capital asset pricing model analysis of what Camden's cost of capital is, it's slightly higher than 6%. When we look at a development transaction or an acquisition, we look at what our unlevered IRR would be over a 7-year period on that development. That needs to be higher than our cost of capital, and it needs to be 150 basis points wide of our cost of capital plus or minus.

Acquisitions can be tighter than that because you don't have the development risk. How we manage our balance sheet in the short-term is being opportunistic with debt rates and equity issuances to try to keep our balance sheet in the right place given where we are in the market cycle. But I don't think about incremental cost of capital on whether I'm doing a 30-year bond deal. We're issuing equity on the ATM.

Alex Goldfarb – Piper Sandler & Co.

Thank you, Ric.

Rob Stevenson – Janney Montgomery Scott

Good morning, guys. Given that California is roughly 12.5% of your NOI across 12 properties, with the legislative, regulatory, ballot issues, etc., how are you thinking about capital deployment there beyond the one project you have under development and potentially one that's in the shadow pipeline?

Ric Campo – Camden Property Trust

We still like our California portfolio despite legislative issues because our portfolio is probably in some of the less risky markets in terms of rent control. The state-wide rent cap really doesn't affect us that much because you're talking about a CPI plus 5% number, which we're not getting right now. I think I would be a little more nervous with the renewed Costa Hawkins legislation that's likely to be on the ballot in 2020. That would allow cities to get more aggressive. Our assets are not in the cities that are more militant when it comes to rent control. Even with all of the negative aspects of California, cost of living and all that, it's still a pretty good market to be a multifamily owner in. I like the exposure there.

Rob Stevenson – Janney Montgomery Scott

Okay. Keith, you were talking before about turnover being low and it can't get much lower. There are obviously positives to that from a same store perspective, but is that putting a drag on your redevelopment given the fact that you're getting access to fewer units on an annual basis? How are you working around that?

Keith Oden – Camden Property Trust

At the margins it matters a little bit, but you're talking about the difference between a 43% and 44% turnover rate year-over-year between 2018 and 2019. If you had a 5% or 10% delta in any given year, that would probably affect the repositions. But the fact is, as Ric gave the numbers in his opening remarks, we've done almost 40,000 apartments. I think the active reposition pipeline right now is only about 2,900 apartments, so the vast majority of the reposition activity that was available to happen in our portfolio has already happened.

Rob Stevenson – Janney Montgomery Scott

Ok. Thanks, guys.

Rich Hightower – Evercore ISI

Good morning, everybody. We've covered a lot of ground on the call so far, but one on the topic of very low acquisition cap rates and compressing development yields out there. Ric, you've done a good job in the past of laying out what the competitive landscape looks like in the sense of the typical capital stack for a developer or competitors on the acquisition side, hurdle rates and lender requirements. Can you walk us through what the average math looks like today and how that compares to where we were a year ago?

Ric Campo – Camden Property Trust

A year ago interest rates were higher than they are today, so the capital stack has improved for the acquisition folks because interest rates are much lower than they were last year at this time. You had a really interesting situation last year coming out of the 2018 cycle. We thought that you would have some pressure on merchant builders and others, where you'd have the buy side of the equation having the advantage versus the sell side. That hasn't manifested itself yet except in a few markets and in some unusual situations that we've been able to uncover. Cap rates continue to be very, very sticky, if not going down, and that’s primarily because the capital is very, very available. If you look at private equity trying to raise funds from pension funds, those numbers are down and getting new funds raised in that way is definitely down. There's still a massive amount of capital that's already been raised and is unfunded, and that needs to find a home. I don't think we lack any capital from the equity or the debt side of the equation. It's actually improved and created more pressure than you would think.

Keith Oden – Camden Property Trust

Yes, just a follow-up on that. We were at the National Multi Housing Council (NMHC) Annual Meeting in Orlando last week. An interesting data point regarding the amount of capital and the number of participants, brokers and companies that are in the multifamily field and chasing deals right now. Two years ago at the NMHC National Meeting there were 5,500 credentialed participants. This year there were 8,000 credentialed participants at the same exact conference. So, in two years an additional 2,500 people paid a pretty healthy price to show up and spend three days at the NMHC. I'm inclined to call peak NMHC, and we'll see where it goes from there. The amount of people interested in the space has grown dramatically. The amount of capital - there's no end in sight. I think there's more of the same in store on transactions.

Rich Hightower – Evercore ISI

That's helpful color. Any quick commentary on LTVs or lender requirements, debt service coverage or those sorts of things? Just to kind of get a sense of that.

Ric Campo – Camden Property Trust

Yes, LTVs are 70% to 80%. One thing that's been interesting is that as banks have tightened their areas, debt funds have expanded dramatically. Over 20% of multifamily funding is now coming from debt funds, for both development and acquisitions. Two years ago debt funds were maybe 5% of the market but now they're 20%. It's not just banks or insurance companies, it's debt funds and mezz programs out there too. I know developers who are putting in 10% equity, then get 20% mezz and 70% construction loans from debt funds or banks. You can get up to 90% financing with a mezz piece, and the mezz competition is as aggressive as we've seen in a long time too. It's definitely much wider than treasuries, but it's 500 or 600 basis points above the ten-year. You can get a mezz piece to get you to 90% financing.

Rich Hightower – Evercore ISI

Fascinating. I'm confident it's all going to end well. Thanks.

Ric Campo – Camden Property Trust

We have a balance sheet that is structured that if it doesn't end well, we'll be doing very well.

Rich Hightower – Evercore ISI

Absolutely. Thanks again.

Nick Yulico – Scotiabank

Thanks. Hi, everyone. I just wanted to go back to the leverage topic. Your leverage is clearly the lowest in the sector. If you look at the rest of the multifamily REITS, they tend to have debt-to-EBITDA at 5x or above. I know your proxy spells out that having leverage in the low 4x range is a performance metric for executive comp. I'm just wondering why you feel the need to have it that low. If this was put in place years ago as a performance metric to get your leverage down, it's come down. Why do you still feel the need to have your leverage so much lower than the peer group?

Ric Campo – Camden Property Trust

It's primarily based on where we are in the cycle. We have called the top of the market a couple of times in the last few years and missed that mark, obviously. I would point you back to the fourth quarter of 2018 when the world was changing dramatically and the 10-year was over 3%. Suddenly people started talking about prices falling and our stock price fell pretty dramatically along with others. We're 10 years into the longest U.S. recovery since the Great Depression or maybe even the history of America. I'm not sure it's the history of America, but I think with the unusually low interest rates maybe it's going to be low forever. I don't know. But with peak supply and the longest recovery ever, I think you need to be cautious in this area. Our Board feels that way, and we're going to keep our debt-to-EBITDA at the low end of the range until there are signs for us that there may be clear sailing. I can't imagine not having a recession in the next five years. If we do, I want Camden to be positioned to take advantage of what could be interesting opportunities. The discussion that we just had on the last question? When you think about people who are rushing into the space today paying sub-4% cap rates and leveraging to 90% with mezz? I'd like to know who they are in the future when we have a recession.

Nick Yulico – Scotiabank

That's a fair point. I'm just wondering why it needs to be as low as 4x, which clearly is a performance metric that you guys hit max payout if you keep it 4x. Why is that the magic number, and does at some point the company revisit this and think maybe now is the time to be doing more development? We can do that, and we don't need to keep our leverage that low?

Keith Oden – Camden Property Trust

Nick, just a point on the performance metric. The metric of 4x to 5x is the range for debt-to-EBITDA and it mirrors our guidance to the Street. I think in Alex's answer earlier in his commentary, if we have a bond transaction modeled and we do our book of business as we currently have it laid out with acquisitions, development funding, etc., we'll end the year at 4.5x. That's right in the middle of the range that we've given guidance to, not only the performance metric, but also guidance to the Street. I think by the end of the year, all things being equal, we should be somewhere near the middle of the range of 4x to 5x, which we think is still appropriate given all of Ric's commentary.

Nick Yulico – Scotiabank

Alright. Thanks, everyone.

Drew Babin – Robert W. Baird & Co.

Hey, good morning. I know it's been a long call, so just one for me. A follow-up on Houston supply. It does look, based on the data I'm looking at, like the quantity of deliveries picks up as the year goes on this year. Given that there's visibility on the first part of '20, do you worry more about the back half of the year and how things might shape up for '21? Or do you look at it as supply naturally spreading itself out a little more as things are delayed? Just curious how you're thinking about that.

Ric Campo – Camden Property Trust

You have to remember that Houston is a vast market with 650 square miles. One of the things that's really interesting about the Houston supply shows you what the lenders and merchant builders have done. They are moving out of the urban core and into the suburbs pretty dramatically. To give you an example, there are 3,000 units that have come online this year in Katy. We have two joint venture properties in Katy and nothing else. There are 3,000 units coming online in the Woodlands. We have two joint venture properties that are up towards the Woodlands but are not in the Woodlands proper. So that's 6,000 units that are coming online in Houston that are really not competitive with our assets or submarkets.

I think that the back half of the year is going to see more pressure than the front half of the year. It's always that way, especially with the ramp-up of the development starting at the beginning of last year. They'll bring new product on. We also clearly have continued slippage of units that were supposed to be in the first and second quarter that go into the third and fourth quarter. With that said, the back half of the year will probably be a little more difficult than the front half. But keep in mind that the key is where that product is and how that affects our product in the suburbs. We think that we're reasonably insulated from a lot of the supply because Houston is so big.

Drew Babin – Robert W. Baird & Co.

Ok. From a timing perspective you look at it as more of a general overhang that will persist for a certain period of time rather than anything potentially lumpy, given how spread out the market is?

Ric Campo – Camden Property Trust

Yes.

Drew Babin – Robert W. Baird & Co.

Ok. That's all for me. Thank you.

<u>Neil Malkin – Capital One Securities</u>

Hey, guys, Hopefully, we can keep this call going until 1:00 East Coast time.

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

Why not?

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

I feel like I'm in the Senate.

<u>Neil Malkin – Capital One Securities</u>

Oh boy. Permits have picked back up in recent months. You talked about debt funds filling the void there. I'm wondering if you think we've reached a structural peak in terms of supply given the types of delays and labor constraints, such that even though permits might be picking up we're continuing to see so many delays? Is this the most that we can physically produce, and we shouldn't expect anything really acute the rest of the cycle?

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

If you look at our data providers and you look out to 2020 completions versus 2019, both in Camden's markets and nationally completions are expected to be up about 10% year-over-year. Obviously they have less certainty to them, but the 2021 numbers have a slight uptick from but not major. The answer to your question is that I'm not sure if it's a structural capacity, but it could very well be that it's a financial wherewithal and a developer capacity. You do reach a point where even if money is certainly relatively plentiful, there are aggregate limits on how much they're willing to play with any particular sponsor. I don't know if it's structural in terms of the construction providers. Getting the existing book of business completed for everybody in every one of our markets has been challenging for the last five years. I don't know how that gets any better in an environment where you have a constraint on skilled labor, but more projected completions. I just think it gets worse.

<u>Neil Malkin – Capital One Securities</u>

Yes. Ok, that makes sense. And last one is in your operating expense guidance. Do you bake in any successful real estate tax appeals?

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

We actually do. If you look at 2019, we got refunds in of about $2.9 million. In 2020, we are anticipating $2.6 million of refunds, so it's pretty close to what we received in 2019.

<u>Neil Malkin – Capital One Securities</u>

Thanks, guys.

John Pawlowski – Green Street Advisors

Hey, thanks. Just one for me. I want to go back to your cautious comments on DC for 2020. Are you seeing anything on the ground today in terms of foot traffic or concession trends that suggest that the third-party forecast for slowing job growth could come to fruition? The declining outlook from 2019's level from the mid-4% revenue growth down from the 4.8% you did this quarter seems to be like a pretty sharp pivot in terms of the trajectory of pricing power. Is it just caution versus a third-party forecast, or are you seeing it happen today?

Keith Oden – Camden Property Trust

There are two things in the forecast. Our primary provider is Ron Witten, as everybody knows. He's got 2020 employment growth at 13,000, which is at the low end of everybody else's range. We've challenged that number, because it doesn't seem consistent with what we're seeing. But if you look at the average of the data providers that we have which includes CBRE, RealPage and Marcus & Millichap, it's closer to 25,000. So, it certainly seems like the average probably makes more sense when you look at the numbers. But if it's closer to the lower end of that range, then it's going to be a challenging market because we know we're going to get 11,000 to 12,000 additional apartments in DC Metro. The DC Metro story is always a little bit tricky, because you have to think about where the footprint is. Our footprint is different than most of our competitors in that it includes Northern Virginia and Maryland, and some suburban assets that we continue to have incredibly strong results from. The only place we do have challenges is in submarkets where we've got immediate construction or lease-up going on and we get impacted like anyone else does. I think our game plan next year reflects a fair amount of realism in terms of what we expect to see. Obviously 2019 was an unexpectedly good year for us in the DC market, and I'd love to see it repeat. I'm just not sure that based on the data that it makes much sense to be particularly more bullish than we are in our forecast.

John Pawlowski – Green Street Advisors

Sure. Understood. But on the ground today, the team has not really seen any recent changes in terms of renewal pricing or concessions or foot traffic?

Keith Oden – Camden Property Trust

No. In fact, on our market update call the other day, I would describe them as very optimistic in terms of their game plan for 2020. We ask everybody to give us on a scale of 1 to 10, how achievable it is. They were in the 9 to 10 range, so they feel very comfortable with their game plan. So no change or concerns based on current conditions in DC.

John Pawlowski – Green Street Advisors

Ok, great. Thank you.

Haendel St. Juste – Mizuho Securities

Hey, good morning out there. A couple of quick ones for me. I'm curious on any updated perspectives on rent control in some of your Sun Belt markets for this year. Per National Multi Housing, it looks like Florida introduced measures last year that would remove the state preemption of rent control and those bills are poised for consideration. There's also been some chatter in Atlanta, while Georgia too had the state level preemption against rent control. It looks like the city council there recently introduced a resolution, encouraging the state to allow cities in that state to pass rent control legislation.

Keith Oden – Camden Property Trust

Yes. There's talk, chatter and activism around the idea of some form of rent control in almost every state that we operate in. The question is, how far advanced is it? What's the traction? The market that I would say is more on my radar screen as far as actionable legislation that could impact us would be Denver. There have been a lot of conversations and a lot of local initiatives around the idea of rent control. I'm not overly concerned about the other ones. In Florida, for example, it's possible that there might be something introduced. It's hard for me to get my head wrapped around a statewide rent control initiative in Florida at this point, but it's something you've got to be aware of. The ground is shifting on this for sure. Five years ago you probably would have said there's never going to be a conversation in Atlanta, or the state of Florida or Texas, but it's something that you have to be aware of. Ultimately how many of them progress to the point where you're actually in a firefight like you are in California over specific initiatives, that remains to be seen.

Ric Campo – Camden Property Trust

Yes. I don't see it happening in those markets. In Houston, for example, there has been discussion of rent control here because housing prices and apartment prices have gone up, and affordable housing is really tough here. The interesting thing is that they'll talk about it, but when you get people in a room that understand the politics of the area, they know it's never going to happen. I think there's a lot of talking but you don't have the same kind of politically polarized, hard-core blue folks like you do in California or New York or some of those other markets. These are red states and are pretty much going to be that way for a long time, which would preempt a lot of state stuff.

Haendel St. Juste – Mizuho Securities

Got it. I appreciate that. Can I get you to talk a little bit more about the Chirp mobile service platform that you plan to roll out here? How should we be thinking about that incremental cost? What are the key features or focus areas? And can you talk broadly about the expected benefits and put some broad numbers around potential expense savings or NOI margin benefit? You mentioned no accretion this year, but I'm curious what that could look like in two or three years.

Alex Jessett – Camden Property Trust

Yes, absolutely. It's a mobile access solution that would enable both residents and vendors to enter the premises and also enter the locks of the individual communities using their smartphones. We are in the middle of our pilot. The pilot is going very well, and we will have more information for you as we get a real deployment schedule. I will tell you that we have done a lot of studies around this. When you look at what our consumers are really willing to pay for, there are a lot of smart home technologies out there that are getting a lot of press, but the reality is what our consumers are most interested in is access. That is what we are primarily focusing on. In addition to the fact that we know that our residents are willing to pay for this amenity, it truly is an amenity. We believe there will be efficiencies on the operating side. If you think about the amount of time that we spend either rekeying locks, letting vendors in, dealing with lockouts, etc. there should be some fairly meaningful savings on the expense side. But once again, we're firming all of this up. As I said, 2020 is really our year for a rollout and deployment, and our pledge is that we will update you quarterly as we know more.

Haendel St. Juste – Mizuho Securities

Alright. Fair enough. Thank you.

Hardik Goel – Zelman & Associates

Hey, guys. Thanks for taking my question. I'll keep it quick. Just wanted to dig into the other income effect, specifically in the fourth quarter and where different things are accounted for. I think Alex mentioned briefly that parking is accounted for a little differently than traditional other income. If you could share the breakdown of where parking fees, cable bundles, and other things are accounted for, that would be great.

Alex Jessett – Camden Property Trust

Yes, absolutely. If you are on page 7 of our supplemental package, you'll notice that we have property revenues as one line item. If you go down to footnote A, we try to break out rental revenue versus other revenue that is tied with a contractual obligation. If you think about rental revenue, we deem parking as rental revenue because you're effectively renting a parking space. Things like our tech package, valet waste, etc., would fall into the other income category.

Hardik Goel – Zelman & Associates

Got it. At the market level, the same thing. If I'm looking at the rental rate sequentially, it's up roughly 70 basis points. But the revenue per home is up 40 basis points. So, is that just a drag from other income? How do I interpret that at the market level?

Alex Jessett – Camden Property Trust

I would go to the fourth quarter comparison. Average monthly rental rates were up 3.4%, yet revenue per occupied home was up 3.7%. If you look at the monthly rental rates at about 3.4%, then you add your occupancy of 0.4%, that gets you to 3.8% which is pretty much in line with the 3.7%. So, I would tell you there's really not a drag from any of our additional other income categories.

Hardik Goel – Zelman & Associates

Got it. Thanks.

Ric Campo – Camden Property Trust

We appreciate you being on the call and supporting Camden for the last decade and look forward to being with you for the next decade. Take care and thank you.

Edited for Readability