CAMDEN
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First Quarter 2019 Earnings Call

May 3, 2019 - 10:00 AM CT

Kim Callahan – Camden Property Trust

Good morning, and thank you for joining Camden's first 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 first 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, 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, then rejoin the queue if you have additional items to discuss. If we are unable to speak with everyone in the queue today, we'd be happy to respond to additional questions by phone or email after the call concludes.

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

Ric Campo – Camden Property Trust

Thanks Kim, and good morning. Our pre-conference call music today featured Keith Urban who was recently named country music’s Entertainer of the Year. That’s not why we chose him for our conference call music. The back story is too long to tell, and I’ll let you call Kim for that story later, but to all Camden associates, it needs no explanation whatsoever. I want to give a big thank you to our Camden team for the hard work and focus that produced another solid quarter for Camden. You have clearly shown how you improved the lives our team members, customers and shareholders, one experience at a time.

First quarter operating performance was better than we expected and as a result we increased same store property revenue and NOI guidance for the year. 2019 looks to be another strong year for Camden and the multifamily business. Apartment demand continues to be strong, driven by healthy job growth in our markets that continues to exceed the national average. In-migration continues to drive population and household growth in most of our markets. Recently released data from the U.S. Census Bureau's 5-year American Community Survey covering 2012 through 2017 identified the top regional magnets for young adults (ages 25-34) who are our largest customer group. This may surprise some of you, but Houston led the country for Millennial migration followed by Denver, Dallas and Austin. Seattle was the only West Coast market in the top five. Our markets attracted over 245,000 Millennials between 2012 and 2017. This migration was driven by strong job growth, low cost of living, and the high quality of life offered in our markets.

2019 apartment completions are consistent with levels in 2017 and 2018 and should be absorbed without much trouble. Our development business continues to create value for our shareholders. Recent developments have been leasing up in line with our budgets. We will continue to add to our development pipeline for future deliveries. We have completed $217 million in acquisitions in 2019, with a full-year budget of $300 million. While the acquisition market remains competitive, I am confident that our team will hit or exceed our 2019 target.

I'll turn the call over to Keith Oden for some observations on the markets.

Keith Oden – Camden Property Trust

Thanks Ric. Our first quarter revenue results were a little better than planned, which is a good sign for the balance of 2019. Overall, same store revenues were up 3.7% for the quarter and 0.8% sequentially. 1Q19 revenue growth was 4% or better in six of our markets with Denver at 5.5%, Los Angeles/Orange County at 5.2%, DC Metro at 4.7%, Phoenix at 4.6%, Atlanta at 4.2%, and Orlando at 4.0%. Contributing to our revenue outperformance for the quarter were DC Metro, Los Angeles/Orange County and Atlanta. As expected, our weakest markets were B- rated Austin, Dallas and South Florida.

Regarding rents on new leases and renewals, first quarter new leases were up 1.1% and renewals up 5.5% for a blended growth rate of 3.3%. That compares favorably to the 1Q18 blended rate of 2.8% and to the prior quarter of 2.4%. As we expected, we've seen seasonal improvement in new lease rates from January through April and we anticipate this trend to continue through our peak leasing season. April preliminary lease rates are running at 2.9% for new leases and 5.5% for renewals for a blended growth rate of 4.0%. April results combined with our May/June renewals going out at 5.7% average increases gives us confidence that our leasing momentum should meet our expectations through the summer months.

Our qualified traffic continues to support above trend occupancy levels across our platform. We averaged a strong 95.8% occupancy in the first quarter, which matched the 95.8% last quarter and was above our 1Q18 level of 95.4%. April occupancy came in at 96% compared to 95.7% last April. Net turnover for the quarter fell again to 38% versus 39% last year. Our rent-to-income continues to reflect strength as our average rent as a percentage of household income remained at 18.6%, the same as last quarter and only a fractional increase from 18.3% last year.

Interestingly, our move-outs to purchase homes fell slightly to 14.0%, versus 14.1% for the first quarter last year and the full-year rate in 2018 of 14.8%. Despite some recent reports of Millennials returning to the single-family for-sale market in greater numbers, to the extent the reports are correct, we have yet to see an impact in our markets.

Finally, for the 12th consecutive year, Camden was included in Fortune Magazine's list of the 100 Best Places to Work®. We celebrate this honor on behalf of the entire REIT industry as an indication of how much progress we've made collectively in the last 26 years. Camden is a great place to work, it's also a great place to live. Congratulations to our entire team on achieving our goal of a 90% customer sentiment score in the first quarter. Your commitment to improving lives one experience at a time made this possible.

I'll turn the call over to Alex Jessett.

Alex Jessett– Camden Property Trust

Thanks Keith. Before I move on to our financial results and guidance, a brief update on our recent real estate activities: During the first quarter of 2019 we purchased for $97 million Camden Old Town Scottsdale, a newly-constructed, 316-unit community located in downtown Scottsdale, and subsequent to quarter-end, we purchased for $120 million Camden Rainey Street, a newly-constructed, 326-unit, 8-story building located in downtown Austin. During the first quarter of 2019 we stabilized ahead of schedule our Camden Shady Grove development in Rockville, Maryland generating a 7% stabilized yield. We also completed construction on both the first phase of our Camden North End development in Phoenix and the second phase of our Camden Grandview development in Charlotte and began construction on the second phase of Camden North End. And finally, subsequent to quarter-end we purchased approximately four acres of land in the NoDa neighborhood of Charlotte for the future development of approximately 400 apartment homes.

On the financing side, during the first quarter we completed a public offering of 3,375,000 shares generating net proceeds of approximately $328 million. We also repaid at par $439 million of secured debt with a weighted average interest rate of 5.2%. $200 million of this debt was repaid on February 1, with the remaining $239 million repaid on March 1. These secured debt repayments unencumbered 12 Camden communities valued at approximately $1.3 billion. As a result, 98% of our debt is now unsecured and 99% of our assets are unencumbered. Also, during the first quarter we amended and restated our unsecured line of credit, extending the maturity date to March 2023 and increasing the capacity to $900 million.

Our balance sheet is strong with net debt-to-EBITDA at 4.0 times and a total fixed charge coverage ratio at 5.9 times. We ended the quarter with $242 million outstanding on our unsecured lines of credit. As of today, after taking into effect our first quarter dividend payments and the purchase of Camden Rainey Street, we have $408 million outstanding which we anticipate refinancing with an upcoming unsecured bond issuance.

Turning to financial results, last night we reported funds from operations for the first quarter of 2019 of $120.7 million, or $1.22 per share, exceeding the midpoint of our guidance range by $0.02. Our $0.02 per share outperformance for the first quarter was primarily due to:

- approximately $0.0075 in higher same store net operating income resulting from higher occupancy and the timing of repair and maintenance expenses;
- approximately $0.005 in better than anticipated results from our non-same store and development communities; and,
- approximately $0.0075 in a combination of lower overhead costs and higher fee and joint venture income.

The impact from our first quarter equity offering was offset by lower interest expense from the earlier than anticipated repayment of secured debt and lower amounts of debt outstanding.

Last night, based upon our year-to-date operating performance and our expectations for the remainder of the year, we updated and revised our 2019 full-year same store and FFO guidance. As a result of our better than expected first quarter same store occupancy performance, we increased the midpoint of our full-year revenue growth from 3.3% to 3.4%. Additionally, we increased the midpoint of our full-year expense growth from 3.25% to 3.35%. This expense increase is driven entirely by higher than anticipated insurance expense resulting from a challenging insurance renewal environment. Our increased revenue guidance partially offset by our increased expense guidance, results in an increase to the midpoint of our 2019 same store NOI guidance from 3.3% to 3.4%.

Last night we also maintained the midpoint of our full-year 2019 FFO guidance at $5.07 per share. There are several adjustments to our original guidance including the following increases to FFO:

- $0.005 from our anticipated 10-basis point increase to our 2019 same store net operating income,
- Approximately $0.01 from our first quarter outperformance not associated with same store results,
- $0.02 of additional acquisition NOI resulting from our earlier than anticipated Camden Rainey Street acquisition. We are still budgeting an additional $100 million of acquisitions in the fourth quarter, in line with our prior guidance,
- $0.015 of additional NOI due to the removal of $100 million of fourth quarter proforma dispositions at the midpoint of our prior guidance. Due to the capital generated from our recent equity raise, we have removed dispositions from our current 2019 guidance.

- $0.095 in lower interest expense, as a result of proceeds generated from our recent equity offering and our earlier than anticipated secured debt repayment, partially offset by earlier acquisition spend and lower disposition proceeds. Our revised guidance now assumes we issue a $400 million 10-year unsecured bond in mid-June at an all-in rate of approximately 4% after taking into effect in-place forward starting swaps.

This $0.145 aggregate increase in our 2019 anticipated FFO per share is offset by the impact of the higher share count resulting from our first quarter equity offering.

Last night we also provided earnings guidance for the second quarter of 2019. We expect FFO per share for the second quarter to be within the range of $1.24 to $1.28. The midpoint of $1.26 represents a $0.04 per share increase from our $1.22 in the first quarter of 2019. This increase is primarily the result of:

- An approximate 2% or $0.03 per share expected sequential increase in same store NOI due to higher expected revenues during our peak leasing periods, and property tax refunds anticipated during the second quarter;
- An approximate $0.025 per share increase in NOI from our recent acquisitions and our communities in lease-up; and
- An approximate $0.01 per share decrease in interest expense resulting from lower amounts of average outstanding debt.

This $0.065 per share aggregate improvement in FFO is partially offset by:

- An approximate $0.025 per share decrease in FFO resulting from the impact of a full quarter of additional outstanding shares after our late February equity offering.

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

Austin Wurschmidt – KeyBanc Capital Markets

Hi, good morning. The improvement you've seen in blended lease rates appears to have been driven largely by new lease rates. Do you think we could see a scenario where new lease rates nearly achieve the same level as renewals this year?

Keith Oden – Camden Property Trust

I don't think we're going to see anything like that, Austin. We did see a pretty decent increase in April, new lease rates jumped to about 2.8%. I think it's more likely that the renewal rates will stay about where they are throughout the year, in the 5%-5.5% range. I'd be surprised if new lease rates got much above where they were for April. I don't think that's likely. I think it's likely that we'll see a steady improvement. The 2.8% may not even be repeated for the next two months after that. But for the full year, that should be about the right number for new lease rates. On a blended basis, you're going to end up still closer to the 3%-3.5% lease rate gain for the year.

Austin Wurschmidt – KeyBanc Capital Markets

Got it. Thanks. Ric, what gives you the confidence to think you can meet or exceed your acquisition target given how competitive the transaction environment has been? You had some success early this year, but again what gives you the confidence, and then what metros are you focused on? Are the deals you're seeing stabilized transactions or more lease-ups?

Ric Campo – Camden Property Trust

Hitting the target is easy since it's only $100 million. Exceeding it would be pretty easy given most transactions that we're looking at today are $100-plus million. $100 million doesn't buy as much as it used to in the past. In terms of metros, we like the markets we're in. There is more value in the Sunbelt markets. We are seeing a fair amount of merchant-build product that has gone through its lease-up but hasn't fully stabilized and really hasn't been managed as a stabilized property yet. So that gives us the ability to create that upside from what the going-in cap rate is. All the properties we bought in the last cycle have the same attributes. We're buying them in the mid-4% range and burning concessions off, putting some Camden special service and activities, and that should drive cash flows up into the 5% range at the end of the second year. I think all of them have been substantial discounts to replacement cost anywhere from 10% to 18%. The Rainey Street project we bought is at least a 17% discount to what it would cost us to build it today. That's sort of what we're looking for and where we're looking.

Austin Wurschmidt – KeyBanc Capital Markets

Great. Thank you.

Michael Griffin – Citigroup

It seems that you've run at lower leverage levels recently, especially given the equity raise. How should we think about leverage levels going forward for the remainder of the year? Have your long-term leverage targets changed at all?

Ric Campo – Camden Property Trust

We've talked about this since 2009, that we were bringing our leverage down over a moderate period of time, and it's taken us 10 years to get here. We want to keep our leverage between 4x and 5x debt-to-EBITDA. We don't even use the concept of debt to market cap anymore given it became obsolete during 2008 and 2009. We're going to stay in that zone. When you look at what was going on in the first quarter, the bond market was pretty rocky in the fourth quarter and into the mid part of the first quarter. Then it improved dramatically, along with the stock market and stock prices. At the time when we were looking at funding, we decided to tap the equity markets as opposed to the bond markets given the volatility in the bond market at that time.

We're going to keep our powder dry to a certain extent and part of that has to do with our fundamental belief that we should operate with lower leverage, and we should get a better stock multiple from investors over a long period of time with that kind of leverage. And then second, we're getting to the point where I think this is the longest recovery in the history of the U.S. in June. That said, I think it's prudent to have lower leverage this late in the cycle. We'd rather be at the lower end of the leverage spectrum versus the higher end so that when we do have a cycle, we have plenty of dry powder to acquire properties from folks that don't have the same view and higher leverages and must sell their properties in a down market.

Michael Griffin – Citigroup

Got it. Thanks. That's very helpful. One other quick question on the Camden Rainey purchase. You've mentioned previously that Austin is one of your lower growth markets. Is this more an asset-specific play to get more exposure to the market? A little color on that would be nice.

Ric Campo – Camden Property Trust

It's definitely an asset-specific play. We've been monitoring this property for a couple of years. It is in the downtown area and it's on the east side of Austin and not in the core downtown, which makes it more affordable. When you look at Austin, rents are $3.00 per SQFT-plus in the downtown core, but they're less on the east side of Austin. We like the idea of being in downtown. You are two miles from UT, Google just broke ground on a property, we have WeWork across the street. It balances our portfolio really well in Austin and brings our NOI contribution up a bit as well, which is important, and it gives us that balance between high-end urban, downtown product versus suburban product as well. We like the balance between urban and suburban so when you do have cycles that the market will obviously have over time, we have that good balance from a diversification perspective.

Michael Griffin – Citigroup

Thanks.

John Kim – BMO Capital Markets

Regarding your acquisition pace being ahead of last year and ahead of guidance, are you more optimistic with your underwriting as far as rental growth assumptions? Or is this mainly a function of your cost of capital improving?

Ric Campo – Camden Property Trust

I think it's both. We have seen rent growth tick up a bit in some of these markets and given that we're late cycle in terms of it's been good for so long, we saw an uptick in revenue growth. I think it gives us a little bit of confidence that this could go on for a longer period than most people think. The fact that we have our debt where we want it in this low zone, gives us a bit more capacity to be more bullish and buy more properties than we would have otherwise.

John Kim – BMO Capital Markets

You quoted a 18.6% rent-to-income ratio. That's lower than many of your peers, but it's even lower than your main Sunbelt peer. I think they quoted 20% yesterday. Can you remind us of the parameters for how you calculate the figure?

Keith Oden – Camden Property Trust

Yes. That's household income divided by total monthly rental expense.

John Kim – BMO Capital Markets

So average household and not median?

Keith Oden – Camden Property Trust

It's the average.

John Kim – BMO Capital Markets

Ok. Thank you.

Trent Trujillo – Scotiabank

Hi, good morning. Thanks for taking the questions. Good quarter and start to the year. Occupancy was up pretty materially in Atlanta, Dallas, and Charlotte on a year-over-year basis each by about 100 basis points. These are also markets noted for having elevated supply. Can you talk about how you're able to achieve these occupancy levels, and how you're thinking about maximizing revenue in these markets during peak leasing season?

Keith Oden – Camden Property Trust

Our entire portfolio is at 95.8% right now, and that's really strong for us historically. We've targeted mid-95% as an occupancy rate for a long time. It's really just a story of where the supply is. Yes, it's true there's a fair amount of supply in Charlotte, Dallas and Atlanta. It just depends on what your footprint is. In Atlanta, there's a fair amount of activity around the Buckhead submarket, but a lot of our other communities in Atlanta are just not in the footprint where there's been a lot of new development. It's also true in Dallas. Less true in Charlotte, and the story in Charlotte continues to be good enough job growth to continually make the absorption numbers work.

As Ric mentioned in his opening remarks, the fact that we're getting domestic in-migration to almost all our core markets in addition to job growth has got to be a factor that's continuing to give us the ability to absorb all this new supply. Based on historical numbers of job growth and supply, it would otherwise be a head-scratcher. I'm fairly convinced that a decent percentage of that story is the in-migration into our markets domestically. A large proportion of those are in our prime rental cohort, Millennials in the 25 to 34-year range that have a higher propensity to rent. When you look across our portfolio in total, every market that we're in has a 95%-plus occupancy rate and that's a really good place to be.

Trent Trujillo – Scotiabank

Thank you for that detail. You touched on Charlotte, and you made that land purchase this past quarter very recently. Can you talk about the opportunity that you see there and what kind of stabilized yield you're anticipating, and how that compares to cap rates?

Alex Jessett – Camden Property Trust

Yes. Absolutely. It's the NoDa neighborhood just outside of downtown Charlotte. It's about 400 units, total cost is going to be about $100 million, and we are anticipating a yield of about 6.5%, so a very healthy spread to what you can get on a new acquisition.

Trent Trujillo – Scotiabank

Thanks.

Alex Goldfarb – Sandler O'Neill

Good morning. A few questions on your markets. Los Angeles/Orange County was your strongest revenue growth market but some of your peers commented recent weakness on their calls. Is this specifically because of where your assets are located versus none in downtown Los Angeles, and you were better off based on where your assets are located? Or have you seen some subsequent post-quarter weakness in your Los Angeles/Orange County assets?

Keith Oden – Camden Property Trust

No. We're still tracking the same as we did in the first quarter, which is really strong. Our outperformance relative to our plan in Los Angeles/Orange County was $150,000 on revenues. It's not like it was a big surprise to us. A decent part of that pick-up was at one community in Hollywood, The Camden, some of which is burning off concessions from the prior year, in addition to our signage income, which came in the first quarter and is more of a timing issue from the prior year. The total outperformance of $150,000, a pretty good chunk of that was at The Camden, but again, not unanticipated for us. Our footprint is a little different than many of our competitors in Los

Angeles/Orange County, but our performance is pretty much on track with where we expected it to be for the year.

<u>Alex Goldfarb – Sandler O'Neill</u>

Ok. The second question is on rent control. In Colorado, the legislature voted down the overturn of the 40-year ban state-wide there. We'll leave California aside because that's been discussed enough. Do you feel that your other markets would go more the way of Colorado, where politicians would understand that invoking rent control is counter to housing? Or are you getting a sense in some of the other Sunbelt markets where you are that maybe what is a coastal phenomenon may creep into some of your markets?

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

I don't think that's going to be the case. We have a couple of positive things in most of these markets. When we think about why we're in the markets we're in, it's about pro-business, it's about population growth and employment growth, and that drives job growth. At the end of the day, our markets are affordable markets from a cost of living perspective. The rent shock that you're getting in some of these other large markets where you have this imbalance between supply and demand that really drives the price of housing up, you just don't have that as much in these other markets because we can build, and we can create that supply for the demand that's there. There aren't any major markets that we are in that are considering rent control. There's always discussion about it because at the lower end, when you start thinking about teachers and firefighters and folks like that, they are getting pushed out into the suburbs. They can't live in the downtown or urban areas in any market, including Houston or Dallas or Austin. But as you go out into the suburban areas, the price of housing drops pretty dramatically, and it becomes affordable. The argument of whether you should be able to live in a downtown hi-rise at $3.00 per SQFT is an interesting argument, but people aren't trying to control that rent because they can go out to the suburbs and get properties at $1.20 or $1.30 per SQFT.

<u>Alex Goldfarb – Sandler O'Neill</u>

Thank you Ric.

Jeff Spector – BofA Merrill Lynch

Thank you. Good morning. I'm not sure if you discussed this already, so I apologize if you did. Can you talk about your thoughts on 2020 supply in your markets, especially in the Southeast where demand is stronger than expected?

Keith Oden – Camden Property Trust

Yes. Looking at Ron Witten's data, completions for 2019 total about 137,000 across Camden's footprint. And for comparison, completions for 2018 were about 138,000. It's virtually identical in terms of supply. Now, the location moves around a bit from market to market, but in the aggregate, it's almost identical in terms of completions. The flip side of that coin though is job growth. Witten's forecast for 2019 in Camden's markets had a sizable increase from last year. He had total employment growth of 557,000 across Camden's portfolio last year, and he's got that number going up to 630,000 jobs this year. I don't know what today's job numbers are going to do to his forecast, but it certainly couldn't hurt his forecast. The interesting thing within that is, if you look at the total U.S. employment growth and, again, this is not reflective of this morning's number, Witten has job growth coming down from 2.7 million nationally in 2018 to 2 million even in 2019. A drop of 700,000 jobs nationally is his forecast and yet across our portfolio we're picking up about 80,000 jobs more than last year, which reflects our thesis all along, which is we are in and want to continue to be in markets that grow employment and population that's better than the national average. And clearly, we're seeing that in a pretty big way between 2018 and 2019.

Jeff Spector – BofA Merrill Lynch

Thank you. That's helpful. Are you able to comment on 2020 at this point?

Ric Campo – Camden Property Trust

It's coming, isn't it, no matter what you do, but we're not going to talk about 2020 and how we think the markets are going to be.

Jeff Spector – BofA Merrill Lynch

I was only talking about supply.

Keith Oden – Camden Property Trust

If you limit it to completions and employment growth, Witten's forecast for supply in Camden's markets ticks up in 2020, to about 150,000 from 137,000. However, I would caution you that for the last three or four years, every forecast for completions has been moved out further due to labor shortages on getting these communities turned, some of it is product type or more hi-rise so it just takes longer to construct and longer to lease up. Every forecast we've seen for the last four to five years on deliveries, some are going to slip. But in the aggregate, yes, it's somewhere around 150,000 apartments subject to the slippage that we know occurs. So not a huge increase across Camden's portfolio.

Jeff Spector – BofA Merrill Lynch

Okay. That's helpful. Can you talk about Lincoln Square, the parking structure that you can convert to apartments? We thought that was very interesting. What other ideas are you exploring or thinking about, especially when you're thinking about future disruption?

Ric Campo – Camden Property Trust

Well the good news is that it's really hard to disrupt a place to sleep. You can't digitize that. You need a place to sleep, you generally need a bathroom, you don't necessarily need a kitchen anymore. But that's the good news for apartments. We don't think disruption is going to be a major issue for our business. But we do think that transportation is going to be disrupted and the use of real estate overall is going to be disrupted. If you look at parking, it's a little over 50% of the built environment in America today, right? When you start thinking about autonomous cars and Rideshare and things like that, most projections show that the number of cars and their requirement for parking is going to be reduced over a reasonably short period of time, like 10 years. You're probably talking about a NAREIT story that was out there about our property in Denver. What we're doing is designing parking garages in a way where we primarily use poured-in-place concrete as opposed to Tinker toy concrete. In that way, the structures are sounder. They're always sound, but for sure, they're easier to convert on flat floor plates. We try to keep the circulation on the ends and make sure that we have plenty of chassis for electrical and plumbing so that we can put those in and don't have to break out concrete in the future. We're probably spending a little bit more in terms of future adaptation of those spaces, but it's not enough to move the needle on our returns. They're still reasonable from that perspective.

I think there's going to be a lot of interesting changes in the future and everything is going to be mobile, and we're working on a lot of mobile solutions to help our residents with their lifestyle from the ultimate package issue that's out there still that everyone is wrestling with. Ultimately, we think there will be a mobile solution that allows packages to be put directly into the apartments via an app. I think that's going to be a win for us not only on the revenue side because we think there's revenue opportunity there, but also on the expense saving side when you start thinking about not having to deal with a lot of those issues in the office where our folks can actually deal with more customer service issues as opposed to those kinds of issues.

Jeff Spector – BofA Merrill Lynch
Great. Thank you.

Drew Babin – Robert W. Baird
Good morning. Extending on Alex's question about Southern California, can you talk about DC where your revenue growth has also significantly outperformed what peers are seeing? Is that a footprint issue as well? Are you seeing anything that's materially different going from 1Q into April there?

Keith Oden – Camden Property Trust
When we look at it, it's a footprint issue. It really is. We just have a higher percentage of our assets that are more suburban. They're great assets. We have a very young portfolio in DC. We just completed two new construction projects in DC, both leased up incredibly well at better than proforma rents. In the downtown space, NoMa is $3.00 per SQFT and Shady Grove is $2.00 per SQFT. It's primarily a price point issue and an asset mix issue. We did outperform in DC relative to our plan. We did about $160,000 better on the revenue side than what we thought we would do in the first quarter, and it looks like that's continuing into April as well. I would say the biggest difference from us and the peer group would be the footprint.

Ric Campo – Camden Property Trust
I'm going to add one other comment on that, which really comes down to where the rubber meets the road, and those are the people that are working on these properties every single day. When Keith mentions that Camden has been on the Great Place to Work list for 12 years, it does matter when people are smiling and hitting customer service rates at 90%. We have an awesome team there and

they're able to squeeze out a little bit more revenue than our competitors, and manage expenses a little bit better as well, just because they have that attitude and that culture.

<u>Drew Babin – Robert W. Baird</u>

Ok. Thanks for that. That's helpful. One more question on the pipeline. If you look at the five projects that are currently in both lease-up and under development, what are you looking at now in terms of stabilized yields on those? I guess that comment probably could extend to the lease-ups as well. Are there any projects that are falling short or meaningful exceeding original expectations?

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

The projects that are in lease-up are meeting our expectations. If you look at those projects, they're more suburban, less urban. And when you move on to the ones under construction, those are seriously urban projects. When you look at the downtown project Lake Eola and Buckhead, those are hi-rise, concrete construction projects, which are going to trend lower in terms of yield than the more suburban wood-frame projects. Our yields are going to be in the 6% range plus or minus for the development communities, and they're probably 6.5% to 7% in the completed communities under lease-up.

<u>Drew Babin – Robert W. Baird</u>

Ok. McGowen Station is a little different in that it's more urban and vertical. Is that one where you're hitting your ultimate goals? I know there has been some decent supply in downtown Houston.

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

Yes. We are. The lease-up velocity is pretty much on track. We're on track with our budgets, and it's going to be a great project. Houston supply has been concentrated in the downtown and midtown areas, and it's starting to move out into the suburbs now. But we're excited about that project, and it's going to be a great long-term asset for Camden.

<u>Drew Babin – Robert W. Baird</u>

Good to hear. That's all for me. Thank you.

Rich Anderson – SMBC Nikko

Thanks. Good morning. Ric, very interesting 2020 is coming. Could you say the same thing about 2021? I mean, that would be interesting to know.

Ric Campo – Camden Property Trust

I could, absolutely. It's coming too. You're obviously a Game of Thrones fan, right?

Rich Anderson – SMBC Nikko

Not at all, actually. Don't want to be. I have a question about a topic that came up last quarter on DC, specifically the government shutdown. You had a handful of folks that came to you looking for rent relief or some sort of help during all of that. And it made me think that perhaps people or the credit behind these rents is very month-to-month specific and missing out on a paycheck for 30 days was enough to get people nervous. So first, tell me I'm wrong, hopefully. And second, why would it be so tight if you are underwriting tenants so carefully so that it's not such a paycheck-to-paycheck type of scenario when it comes to your rents?

Ric Campo – Camden Property Trust

Number one, our credit quality has not suffered at all. If we had a credit quality issue, you would see bad debt tick up. Our bad debt has been very consistent for a long period of time. I do think though, however, that people generally have issues when they're not getting a paycheck. Their credit is still good, but most people are not saving a lot, and it's a complicated dance. If you look at our 18.6% rent-to-income ratio, that tells us they're spending money elsewhere. A lot of them have other expenses that they must deal with as well. I think part of it too is, you hear in the media where people are reaching out to government workers who aren't getting paid and so they think they can get something for free to a certain extent. We didn't waive rent. What we did was waive late fees and worked with them to get the rent paid, and they all paid the rent. It was more of a timing issue than anything else. Like I said, it was a handful. The interesting thing is, it wasn't just DC, because government workers were all over the country. We had some people in California and Colorado. I don't think if people miss one month of income, they're in trouble. But I think that several months would hurt most people.

Rich Anderson – SMBC Nikko

Yes. Fair enough. Maybe you were just responding to a human nature response to the situation. Is that a fair way to put it?

Ric Campo – Camden Property Trust

Absolutely. We want to make sure that we take care of our residents, and customer service is a big issue. If someone comes in and says, "Look, I can't pay my rent this week. I don't want a late fee, and I'm a government worker," you'd say, fine. We were proactive on that, and our teams sent out guidance to everyone across the platform and said, if somebody has an issue, take care of them.

Rich Anderson – SMBC Nikko

Okay. Second question is sort of big picture. Do you have a vision into being included in the S&P 500? I know you're not going to guide your strategy around that, but is it something that's on your radar screen that you care about significantly?

Ric Campo – Camden Property Trust

Well, it'd be interesting and nice, I guess. But we don't have any control over that. I don't really worry about things I can't control.

Keith Oden – Camden Property Trust

I think it's something that we would all love to be a part of the S&P 500, but it's not like you go audition for it. It would be an important thing and it's a positive, there's no question about it, particularly in this world of index funds. It would be a good thing. So, if anyone from S&P 500 is on the line listening, we're available.

Rich Anderson – SMBC Nikko

Outstanding. Thank you very much.

Derek Johnston – Deutsche Bank Securities

Hi, everyone. Are you still targeting around $300 million in annual development starts, and has that thinking shifted at all with the lower-for-longer rates, the stellar job and wage growth, and the probability of this being more of a super cycle versus end of cycle?

Ric Campo – Camden Property Trust

We are continuing to target $300 million starts a year. The challenge we have today is that construction costs and land prices continue to rise and finding transactions where we could ramp up is difficult. We are very focused on getting the right returns and disciplined in how we allocate the capital. I do think that the economy going longer and rents doing well is great. But we are still in late cycle, and we don't feel it makes sense to ramp up dramatically, and we really can't because of the constraints we put on our return requirements. I guess if we decided to lower our hurdle rates and put the pedal to the metal we could, but that's just something that over the years we just don't do.

Derek Johnston – Deutsche Bank Securities

Right. That makes sense. I don't know if someone asked this and I apologize if I missed it, but expense growth driven by property taxes and payroll did seem to continue this quarter. I'm looking to get your thoughts on when you see this elevated trend on expenses softening?

Alex Jessett – Camden Property Trust

First quarter property taxes were up 7.7%. We think it'll be up 4% for the full year. The big difference between the two is that we're expecting about $2 million of refunds split between the second quarter and the third quarter. Salaries were up about 6%, and that's in line with what we're expecting for the full year. If you recall in 2018, we had a really good year for employee health care costs, which were very low. When we started this year, I guided to the fact that we didn't think that would continue, so that's what you're seeing. The last item is property insurance, which we talked about in the first quarter, was a little bit higher than we expect for the full year at about 24%. We think the full year is going to be closer to about 16%, but that's entirely driven by two factors. Number one, this is a really tough renewal environment. When you look at all of the hurricanes that have happened in the last two years and think about the wildfires in California and floods in the Midwest, those all equally impact insurance providers. And ultimately, when things like that occur, they start to raise premiums. The second thing is, we did have some hailstorms in the first quarter in Dallas that dragged on these numbers a little bit too. But when we look at our full year, we feel really comfortable with our revised guidance for full year expenses.

Derek Johnston – Deutsche Bank Securities

Thanks.

Karin Ford – MUFG Securities

Hello, good morning. I was wondering if the ramp on occupancy and new lease rent growth from the first quarter into April was better than seasonal trend or just in line with what you normally see.

Keith Oden – Camden Property Trust

A little better than seasonal trends. We're a little better than 1% for the quarter and that jumped up to 2.8%. I think that will moderate. For the full year, it will be somewhere in the 5.0% to 5.5% range on renewals and somewhere in the 2% plus or minus on new leases over the platform. It gets us to somewhere around the 3.5% for the full year on blended lease growth. But I think the April numbers are probably going to end up moderating some as we go forward.

Karin Ford – MUFG Securities

Got it. Thanks. And then following up on the parking question. Ric, any sense for how much value could be hidden in your parking structures and your land if there does end up being a drastic reduction in parking needs in the future?

Ric Campo – Camden Property Trust

Well, it could be substantial for sure because while we're charging some parking today, we're getting basically zero revenue from that investment other than normal rent, right? If you can actually convert a property from 300 units to 500 units by adapting those parking garages and you're going to make a 6% or 7% return on that investment, it's pretty substantial in the portfolio when you think about half of our real estate is probably parking.

Karin Ford – MUFG Securities

Got it. Thanks.

Ric Campo – Camden Property Trust

Great. Thanks so much. We'll see you at NAREIT coming up. I appreciate the opportunity to be with you today. Thank you.