First Quarter 2020 Earnings Call

May 8, 2020 - 10:00 AM CT

Kim Callahan – Camden Property Trust

Good morning and thank you for joining Camden's first quarter 2020 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 2020 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

Thanks Kim, and good morning. Our on-hold music today was unsurprisingly pandemic-themed and included a couple of selections from Michael Bilerman's personal COVID-19 playlist. Four of the five songs were probably familiar to many of you, and the fifth song was a unique cover of a Led Zeppelin classic. Even that song has a COVID-19 connection.

A resident at a Camden high-rise community in St. Petersburg, FL wanted to do something special for his wife's birthday, despite the stay-at-home order. He asked if he could use the roof of the community's

parking garage to stage a concert for his wife. Of course, we agreed. Not only did he surprise and delight her but all the other residents whose homes overlook the garage rooftop. They got to enjoy an incredible performance by Shaun Hopper and Chris Barbosa from their perfectly socially distanced balconies. This is just one example of the many ways we and our residents are working together to help ensure we make the best of this complicated journey we are on.

I want to give a big shout out to Team Camden for their resilience and commitment to improving the lives of our teammates, customers, and shareholders one experience at a time. Our on-site property teams have really stepped up to help our residents during this unprecedented time to make their homes a true place of refuge. Our corporate and regional support teams have continued to be highly productive, adapting to telecommuting without missing a beat. During times like this, it brings the importance of our homes to the forefront. I am proud of Team Camden. Thank you.

We'll use most of the call today answering questions about what we are seeing in our business in real time. We won't spend much time talking about the distant first quarter and will not provide guidance for the rest of 2020 in this uncertain environment. We are more prepared for this recession than any other, thanks to lessons learned from the financial crisis. We know that we will come out of this recession in a great position with financial strength and a focused motivated team.

Keith?

Keith Oden – Camden Property Trust

Thanks Ric. Someday someone will write a novel titled "A Tale of Two Quarters" and it will begin like this, "It was the best of quarters, it was the worst of quarters." Camden just arguably had the best quarter in our 28-year history. We had the highest FFO per share of $1.35, we had the biggest quarterly outperformance relative to our established guidance, we had a sector-leading same store NOI growth of 5.7%. Yet in the last two weeks of the quarter, everything changed.

Fortunately, our leadership team has been together for decades and we have dealt with our share of disasters and disruptions. Our experience with previous dislocations provided us with a roadmap for navigating this pandemic. First, take care of the Camden team, make sure that they were operating in the safest possible environment. Also, make sure that we addressed their financial wellbeing. Employees that are under personal financial distress will never be able to do their best work. To accomplish this, we did two things. First, we added $1 million to our long-standing Employee Emergency Relief Fund – $750,000

came from Camden and $250,000 came from Camden's executives. Grants of up to $3,000 were made available to our employees whose family income had been impaired or whose living expenses had increased due to the COVID-19 impact. To date, we have provided 350 employees with total grants exceeding $1 million. Second, last week we announced a bonus exclusively for our front-line employees, both on-site operations and on-site construction teams, of $2,000 for each full-time employee totaling approximately $3 million. The best way for us to ensure that our residents are afforded *Living Excellence* is to ensure that our Camden team remains physically, mentally, and financially healthy.

Our next priority was to assist our residents who had lost jobs or substantial income from the COVID-19 impact. In April, we announced a $5 million Resident Relief Fund for Camden residents experiencing financial losses caused by the COVID-19 pandemic. The Resident Relief Fund was intended to help impacted residents by providing financial assistance for living expenses such as food, utilities, medical expenses, insurance, childcare or transportation. The objective was to provide residents with a bridge to get to other forms of assistance such as unemployment insurance, stimulus checks or PPP loans, many of which had been delayed beyond their expectations. We subsequently approved and delivered relief funding to nearly 2,400 Camden residents totaling over $4.5 million. We didn't give out the entire $5 million, as some people asked for less than the maximum amount of the grant, and some of the applications in the initial group were not qualified. In order to fulfill our commitment to distribute the entire $5 million of funding, we allowed additional residents to submit applications on April 20th. All residents who submitted a qualified application demonstrating loss of income due to COVID-19 were eligible to split the remaining $460,000. Between the date we announced the Resident Relief Fund and the date we reopened the Fund, which was only nine days, an additional 12 million Americans filed unemployment claims. We knew the need for relief had increased but had no idea how much. In the second round of Resident Relief we reviewed and approved over 5,800 additional applications, which would have amounted to $79 per person if we had stuck to the original plan to split the remaining $460,000. As a result, we decided to increase our initial commitment of $5 million to $10.4 million, allowing all the approved new applicants to receive grants for $1,000 each. This brought the total number of Camden residents receiving Resident Relief Fund assistance to approximately 8,200. We're very proud of the way that we have been able to support our residents as well as our Camden team members during these complicated times.

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

Alex Jessett – Camden Property Trust

Thanks Keith. Eight weeks ago, our corporate and regional teams began to work remotely. In two months so much has changed, but our teams continue to adapt and respond to each new situation. The technology investments we have made in the recent past are paying dividends. We just completed our first-ever virtual quarterly close, a task that would have been so much harder without our investment in a cloud-based financial system; our on-site teams are having great success with virtual leasing; and we are preparing for our first-ever virtual Annual Meeting of Shareholders.

Understandably taking a backseat to the discussion of current operational trends, Camden had a great first quarter, helping to position us well for the COVID-19 related environment we now face. Details about our first quarter performance are included in the earnings release and supplement published last night and available on our website, so right now I will focus primarily on operating trends we've seen in the second quarter. But first, rental rate trends for the first quarter were as expected until mid-March, when our leasing offices were closed to the public and we began offering existing residents 0% increases on renewals. For the first quarter of 2020, new leases were up 0.5% and renewals were up 4.2%, for a blended growth rate of 2.5%. Our April results indicate a (2.5)% decline for new leases and 0.1% growth for renewals, for a blended decrease of (0.8)%, which is approximately 500 basis points below the blended growth of 4.1% achieved in April 2019 when we were clearly operating under more normal circumstances in a pre-COVID environment. As a reminder, our new lease and renewal growth data is based on when leases are signed versus many of our peers that report based upon when a lease becomes effective. We believe our methodology represents a more real-time view of what is happening on the ground. However, if we use the same methodology as our peers and look at leases that became effective in April, our new leases would have declined (1.2%) and our renewals would have increased 4.5%, for a blended increase of 2.0%. Occupancy averaged 96.1% during the first quarter and 95.6% in April, compared to 96.0% in April 2019. Our current occupancy rate is 95.0%.

Although current situations are certainly affecting people's living decisions, we continue to have great success in conducting alternative-method property tours for prospective residents and retaining many of our existing residents. In April 2020, we signed 3,807 leases in our same property portfolio, comprised of 1,322 new leases and 2,485 renewals, as compared to April 2019 when we signed 3,756 leases comprised of 2,025 new leases and 1,731 renewals. For April 2020, we collected 94.3% of our scheduled rents, with 2.5% of our residents entering into a deferred rent arrangement and 3.2% becoming delinquent. In a typical month, delinquency would be approximately 2%, so our April collections were 96% of typical. Markets experiencing higher than normal delinquency rates include Southern California at 9% and

Southeast Florida at 4%. Markets with delinquencies at or below 2% include each of our Texas markets - Austin, Dallas, and yes Houston - along with Phoenix, Tampa, and Orlando. So far, rent collections in May are trending slightly ahead of April. Regardless of our current collections, rent is still contractually due to Camden from each of our residents. According to GAAP, certain uncollected rent is recognized by us as income in the current month. Any rent recognized as income in the current month without corresponding cash receipt will be reevaluated in subsequent months depending upon future payment history.

The Resident Relief Funds that Keith mentioned, also as according to GAAP, will be recognized as a separate offset to property revenues in the quarter. The $750,000 contribution to the Employee Relief Fund will be expensed to Camden's corporate level G&A and the approximate $3 million bonus to our front-line employees will be predominately booked to property level expenses. In addition, Ric Campo and Keith Oden have each agreed to voluntarily reduce the amount of his annual bonuses which may be awarded in the future by $500,000. The aggregate $1 million reduction in compensation will serve as a contribution to the just mentioned payments.

And now a brief update on our real estate activities. During the first quarter of 2020, we stabilized Camden Grandview Phase II, a $22.5 million, 28-home townhome development in Charlotte, NC, and we began leasing at Camden Downtown, a 271-home new development in Houston, TX. Also, during the quarter, we acquired five acres of land in Raleigh, NC for the future development of approximately 355 apartment homes, and we sold approximately five acres of land adjacent to one of our operating properties (also in Raleigh, NC) to facilitate a public right of way. This disposition created an unbudgeted gain on sale of land of approximately $400,000 recognized as FFO in the first quarter. We decided to temporarily suspend construction activity on our recently announced Camden Atlantic development in Plantation, FL, as only very minor site work had been completed to date. And, due to the impacts of various local ordinances combined with current market conditions, we have delayed the expected dates for initial occupancy, construction completion, and project stabilization by one to two quarters at almost all of our new developments. We will continue to update these dates as we gain more clarity.

Turning to liquidity, subsequent to quarter-end we issued $750 million of senior unsecured notes with a coupon of 2.8% and an all-in yield of 2.9%. We received net proceeds of approximately $743 million, net of underwriting discounts and other estimated offering expenses. As of today, we have approximately $1.5 billion of liquidity comprised of almost $600 million in cash and cash equivalents, no amounts outstanding under our $900 million unsecured credit facility, and we have no scheduled debt maturities

until 2022. At quarter end, we had $235 million left to spend over the next two and a half years under our existing development pipeline. Our balance sheet is strong with net debt-to-EBITDA at 4.2 times, a total fixed charge coverage ratio at 6.4 times, and 100% of our assets unencumbered. Our 2022 debt maturities include $100 million in January and $350 million in December, and we have not yet made any decisions about prepaying those or any other future debt maturities. Our current excess cash is invested with various banks earning approximately 30 basis points.

Turning to financial results, last night we reported funds from operations for the first quarter of 2020 of $136.3 million or $1.35 per share, exceeding the midpoint of our guidance range by $0.04. This $0.04 per share outperformance for the first quarter primarily resulted from:

- approximately $0.005 in higher same store net operating income resulting from higher rental income and general expense control measures;
- approximately $0.0075 in better than anticipated results from our non-same store and development communities including our recent acquisitions;
- approximately $0.01 in lower interest expense as our original guidance anticipated a $300 million, 30-year issuance mid-February at 3.4%;
- approximately $0.005 from the previously discussed gain on sale of land in Raleigh, NC; and,
- approximately $0.0075 in a combination of lower overhead costs and higher fee income.

Given the uncertainty surrounding the social and economic impact from COVID-19, we withdrew our previous 2020 earnings guidance and we will not provide an update to our financial outlook this quarter.

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

Derek Johnston – Deutsche Bank

Some of your peers have focused on maintaining occupancy over price, some have paused pricing and lost occupancy, while others have temporarily put in place concessions to bridge the gap. How are you balancing these scenarios at this point? And to what level could occupancy decline to where you're still comfortable if you want to maintain price?

Keith Oden – Camden Property Trust

Yes. Our long-term average occupancy is in the 95.0% to 95.5% range. We've been running above that for about the last 1.5 years. At the same time, part of what was driving that was we had really great traffic, and we had the ability to push rents without having any impact on occupancy. So, if you think about

where we came from at the end of the first quarter, we were at 96%. That was about in line with our plan for the quarter. We dropped to 95.6% by the end of April, and as we sit here today we're about 95%. So yes, we have seen a decline in our occupancy. It's not anything that we're overly concerned about at this point. We would like to maintain our occupancy somewhere around the 95% range, and we'll adjust our metrics to make sure that happens. With regard to your question about concessions, we use net effective pricing. We have not offered concessions. It's all based on our revenue management model. We think our customers are smart enough to make that determination on their own about upfront concessions versus net effective rents. The other thing is that in this environment, we just think you're unnecessarily taking unnecessary risk and complication when you start concessions in an environment where you've got residents that are under potential financial distress going forward. That is not something that we have done and are not likely to do. Based on the traffic that we're seeing and the pricing trends that we're seeing, we need to try to maintain our occupancy somewhere around the 95% level.

Derek Johnston – Deutsche Bank

Okay. And just a quick follow-up, how has leasing demand evolved from April into May? And how do you see it unfolding through the important spring and summer season?

Keith Oden – Camden Property Trust

Yes. If you think about it in three time frames, the first would be something that's relatively normal in our world, and that would be from the beginning of January through March 15 when the world changed. In that time frame, over the prior year, our traffic, guest cards, visits and new leases were all almost exactly in line with where we would have been in 2019. So, it was clearly business as usual. Good, steady, heavy traffic and converting roughly 8% or 9% of all the guest cards and about 20% of all the traffic. The next period of time was March 16 through April 12. That 4-week period had the maximum shock effect of people being told to stay at home. Obviously, we had a huge impact on our guest cards in that time frame, and they dropped about 45% of normal. Our physical visits dropped about 84% of normal. A huge change in consumer behavior. Our new leases during that time frame were roughly 50% of what they would have normally been. The next time frame that I think is relevant for you to think about would be from April 13 through this week. We're getting closer back to something that looks and feels a little bit more normal on guest cards. We're down about 13% from where we were this time last year for that 3-week timeframe. We're still way down on visits, but that's not necessarily concerning to us. We're still 62% on physical visits from where we have been, but that's because we've completely changed our business practice to virtual leasing. There are some interesting benefits that our residents have pointed out about being able to lease an apartment that way. So that one is not particularly concerning. New leases are

definitely down over the prior period. We're down about 21% on new leases from where we were for that 3-week period in 2019. The offset to that has been our renewal rate, which has increased pretty substantially. We had the lowest turnover rate that we've ever had in our company's history at about 37%. I didn't think I would ever live long enough to see an apartment portfolio with a 37% turnover rate, but that's where we are. It was a big shock for the first 4 weeks, then a recovery through this week that's getting within hailing distance of looking like normal.

Derek Johnston – Deutsche Bank

Thank you.

Michael Bilerman – Citigroup

I wanted to get your perspective on how you think about the $10 million of relief that you provided to your residents. It's 1.5% of annual NOI, 6% on a quarterly basis and 18% of monthly. Is this going to be recurring? Should tenants not be able or need more assistance in the future? Do you view this as a concessionary tactic of being able to provide additional funds for them? Cash is fungible, right? They can pay the rent, or they can pay their normal expenses, so how should investors be thinking about future programs like that?

Keith Oden – Camden Property Trust

I think the easiest way to think of it is in a couple of different pieces. One piece was the immediate financial impact to 8,000 of our residents. While there was a lot of talk about stimulus checks and PPP money, and then possibly even stimulus checks that were going to be sent out, the reality is that in state unemployment that people were trying to get through the queue. The reality is that the impact of this was sudden and so many of our residents were caught off guard and didn't have the financial resources. It wasn't really about paying rent. It was about paying groceries and medical bills and transportation expenses, childcare and those kinds of things that were completely unexpected to a lot of people. Because we were getting anecdotal evidence and feedback from our frontline teams about the financial difficulty and the urgency of the situation, we felt we could do something more quickly for most people. Honestly it was intended to be a bridge to get to something that's more durable, whether it's state unemployment, the stimulus check or ultimately one of the PPP grants. So, part of it was an immediacy, part of it for financial need, part of it was the ability to assist our residents at a time of their maximum financial stress. If you think about our resident base, we have roughly 80,000 adults with signatures on a lease. About 1 in 10 ended up getting resident relief funding from us. So, it was to address an immediate need to get people to a bridge to a more permanent and durable situation. Then the issue of what they do

with their money, cash is fungible, and we made no requirement whatsoever that they apply it to rent. Some people may have, but that was a choice that they were going to make.

It's really more about the long-term brand issue for what Camden stands for. I think as this unfolds, we'll see the positive effect of the actions that we took on behalf of our residents and our employees, and we're willing to play the long game. All of the financial impact, as you walked through, those numbers are correct. It will happen in the second quarter, and then we'll be back to a more normal run rate. And to the third question, which is do you anticipate doing this in the future? We have no current plans to do any other resident relief plans. It's possible that if our employees continue to have financial needs, at some point we may want to look at replacing our emergency relief fund, but that's a program that's been in place for over a decade. So immediate assistance, our brand long-term, and how we conducted ourselves at a time of maximum financial stress for our residents were all the things that we had in our mind.

Ric Campo – Camden Property Trust

Let me add to that a little color because to me, there's been a lot of discussion these days about how companies ought to be more socially responsible, how it's not about the bottom line only. It's about taking care of customers, it's about taking care of communities, taking care of employees. We thought that the benefit of immediacy, very quickly getting folks money when it was hard to get money from the government, it put a zip in the step of our employees. Even residents who didn't apply for the grant actually communicated with us and sent us thousands of congratulatory e-mails saying “I don't need the money, but I understand now why I really live at Camden. As long as I'm a renter, I'll be with you.” To me, this is our way to say to the industry and the corporate world in general, that these are the right things to do. I will tell you that multiple companies followed our lead. I spoke with probably 10 different companies on how we did it and why we did it, and that was a good thing. So, to me it really is about the long game, and it's about being a good corporate citizen to your community and your customer.

Michael Bilerman – Citigroup

How did you weigh providing capital and checks to people versus simply entering into deferral agreements for a period of time for their rent until the government assistance comes into play?

Ric Campo – Camden Property Trust

Well, we did that as well. Over 2% of our people have payment plans now or 2.5%, something like that. We did both. But ultimately, we started thinking about what we could do that was a major statement that was going big, if you want to call it that. It would be an amazing thing for not only our employees, but

residents and residents that didn't need the money, right? That's why we did what we did as opposed to saying we'd defer the rent. The idea was to bridge people from point A to point B. One of the things I think is really fascinating is that the government stepped up in a major way increasing unemployment insurance benefits by $600, extending them beyond what the states had as well. Our average household is about $105,000 or $110,000, or something like that, but the math I've seen is based on income of $40,000 per person. If we had a dual-income household and each person made $40,000 each, their take-home pay was roughly $6,500 per month and the rent was $1,500. Once they applied for unemployment insurance, if they both lost their jobs, then you had a situation where they actually got an increase in their income of roughly $1,500 per month. So, from our perspective, we thought it was going to be hard for people because there were so many people applying at the same time to get this money. But ultimately when you bridge that gap, they will have funds available if they lost their jobs. The other part on your question is the whole gig economy. We have tons of gig economy people that are residents. They're having a tough time navigating legacy systems that states have with respect to unemployment. It's really hard for those guys to get lined up. That was the longer thought process behind it rather than just saying we'll defer your rent.

Michael Bilerman – Citigroup

That's really helpful. Last question. Out of the 8,000 residents who took the money, what percentage of those paid their full rent, what percentage of those paid no rent, and what percentage are on deferrals?

Alex Jessett – Camden Property Trust

I don't have the exact numbers right here, but the vast majority of the folks that received money from us paid their full rent.

Keith Oden – Camden Property Trust

I think in Alex's opening comments, he gave indications that our May collections are actually running slightly ahead of April collections. That's certainly a little bit unexpected to me given what's happened in the world in the last 30 days.

Michael Bilerman – Citigroup

Great. Thank you so much.

Jeff Spector – BofA Global Research

Thanks for all you're doing. For what it's worth, BofA's ESG strategist continues to point to the growing importance of ESG, so thanks again for your efforts. My question today is on Houston. If you could talk

about the Houston market, it seems to be more resilient than we were expecting, possibly even you and your team, in terms of collections and occupancy. It looks like it was up year-over-year 40 bps. And then could you also discuss the downtown project that you're leasing up?

Ric Campo – Camden Property Trust

Sure. Houston is definitely a very interesting market. When you look at what happened in Houston, there were 342,000 people filed for unemployment through this current period. By the end of the month, it will probably be more like 400,000. I know people connect Houston with energy, and they should because energy is a big part of the economy here. But it's also a broad economy, with 7.2 million people, the fourth largest city in America, and there are a lot of other things that go on besides energy. Energy is definitely top of mind and obviously they've had a rough road that they've been on and it will probably be a rough road going forward. To give you a sense of the last cycle in energy here in 2014 to 2016, Houston lost a net 5,000 jobs while energy lost 95,000 jobs. Other parts of the Houston economy that are more related to the U.S. economy were doing well. Petrochemical businesses were doing well because of low oil prices or their feedstock, and that tends to give them higher margins. As long as the overall economy is doing well, then the downstream part of energy does well.

In this situation, we have the U.S. economy going down and at the same time energy is going down. Of the 95,000 jobs that were lost in energy, they've added back about 30,000 of those jobs. So, what was going on with energy prior to the pandemic was that energy was starved for capital during the 18 months prior to the pandemic. They really didn't add back all the 95,000 jobs they lost. The interesting thing is they almost doubled their production in the Permian Basin between 2016 and 2019 as a result of more efficiency and better technology and things like that. The good news is energy doesn't have 95,000 jobs to lose, because they only brought back 30,000 of those 95,000. Places like Midland and the Permian Basin are definitely getting hammered for blue-collar workers that are working on rigs and what have you, and some of the service providers are starting to lay people off. The energy hit is probably going to be a lot less than it was in the 2015 to 2016 cycle because they just don't have as many people left to take out. We listened to the two big players here, Patrick Jankowski from the Greater Houston Partnership and Bill Gilmer from UofH. They've been economists following Houston forever. Both of them think that Houston will have net job losses in 2020 between 75,000 and 100,000 jobs. Even though you had roughly 400,000 people file (for unemployment), the question ultimately is how fast those consumers get out of their bunkers and start getting back to normal. Texas is phasing in an opening program with retailers open now at 25% occupancy levels. By May 18th, they're talking about going to 50%, so there is an opening phase by the end of the month. They are in theory going to be open. We'll see whether consumers actually come

out of their bunkers or not. That's the big question I think we have nationally.

The other thing I think is really interesting, and this could be a real benefit for Houston longer-term, is that even before the pandemic, Houston energy executives were calling for energy transition plans, meaning that if you look out in the future, oil demand was supposed to peak in 2030 or something like that. So, all of the major oil companies are focusing on how they do the transition. I think this pandemic and the Saudi-Russia issue, when oil went negative, has created a massive wake-up call for the energy folks. People don't realize that Texas is #1 in wind generation, and in the next 2 years it will probably become #1 in solar. I think we have a real opportunity in Houston to actually lead the energy transition with all the brain power and engineering power that we have with energy. I think the energy companies think of themselves as maybe the Kodak of the film business, and they don't want to go the same way that Kodak or Polaroid went. I talked to a lot of senior energy executives, and I think it's a major happening right now. So, that could be a positive for Houston over the long term.

On our Camden Downtown project, we are in the early stages of lease-up. It's definitely tough sledding right now. We've been absorbing about 10 units per month, which is pretty slow, but we are making leases. We made leases in the last couple of weeks. I think we're 16% leased at this point. Part of the building was structured as a WhyHotel. Prior to the pandemic, they had the highest number of pre-bookings of any WhyHotel that they've ever done. And of course, we know what happened to that now in the pandemic. We're not sure exactly how that's going to play out over time, but it's a great piece of real estate. It will be great long term, but in the near-term, it's going to be tough leasing that project up.

Jeff Spector – BofA Global Research

Your comments were very helpful. One follow-up on a previous question. To confirm, are you saying that your recent applications are back to normal as of this past week or two?

Keith Oden – Camden Property Trust

No, they're not back to normal. In terms of guest cards, which would be what you think of as the starting process for leading to a lease, we're about 13% below where we were this time last year. That's for the period between April 13 and May 6. We're about 13% below what we would normally see or what we saw last year in terms of guest cards

Jeff Spector – BofA Global Research

Ok. Thanks for clarifying. Thank you. Be well.

Austin Wurschmidt – KeyBanc Capital Markets

You indicated that you're offering flat renewals, but I don't believe you've specified a time horizon, where some of your peers said 90 days or maybe through June 30. I'm curious how you're thinking about when you might start to take more of a market-based approach or let the revenue management system take over as it relates to renewals. What are your thoughts on changing your stance there at this point?

Ric Campo – Camden Property Trust

I think what we all have to do in this environment is play it by ear and see how the market is responding. We have put out guidance that we are going to hold things flat for 60 days, and the 60 days would be expiring in mid-June, or perhaps the end of June. I think what we really have to do is feel out the market and try to understand how our customers and our employees are feeling. If you think about a renewal, if you're getting a 4% increase on a renewal, that's $45 or $50 per month to a resident. The reason we froze them and the reason we did all of the other things we already talked about doing is we wanted our employees focused on one thing and one thing only. That was taking care of those people in real-time right now with their issues. I don't want to have our employees knock on doors and say, "Hey, by the way, I know this is really a tough time, but can you give me $45 more because we need it?" Our view is that we stated 60 days, but we will make changes as the market dictates. Once we get back to a more normal situation, our customers know that we're like any other business. They need to pay their rent and ultimately we provide value to them through all of the packages that we have. Part of the issue you have today is they can't even use the pool, barbecue grills, gyms or things like that. I would hate to ask somebody to pay higher rent when they're not even getting the full complement of amenities and packages. So, 60 days from now, and we will evaluate it as we go forward. Ultimately, I think it will be better for our customers and better for our employees to evaluate it in that way.

Austin Wurschmidt – KeyBanc Capital Markets

Got it. That's helpful. Just to understand it then, does the flat renewal offer end in June, or is that for renewals into July and August that are getting offered?

Ric Campo – Camden Property Trust

On renewals we generally go 60 days out, but right now we're going 90 days out.

Austin Wurschmidt – KeyBanc Capital Markets

Got it. And then last one, following up on the Houston commentary. It was a helpful comparison from

2016-2017 when things turned negative, certainly a delay from when oil rolled over in late 2014. I'm curious how the supply setup looks different than last time. I think I recall supply ramping up pretty significantly into '16 and '17, and today things are fairly shut down. How would you compare and contrast that side of the equation?

Ric Campo – Camden Property Trust

I would say Houston supply is actually peaking right now. When you think through the supply, it actually fell off in '15, '16, '17, then when Hurricane Harvey hit in '17 we ended up with very high occupancy. Houston was the only market in America where you could tell a story that had a recovering economy and a declining supply picture. What productive developers did was they ramped up development in Houston, so today we have 21,000 units that were permitted in 2019. Projections for 2020 were 14,000 to 15,000. That will probably fall off some, but Houston will have more supply to deal with than it did during the '17, '18, '19 timeframe. However, when you look at some of the projections on supply everywhere, the peak supply was somewhere around 400,000 units. Most of the analysis that we see around the country has supply dropping to barely over 100,000 units net, and that generally is what you see in an economic situation like this. Equity and construction loans for new development are very, very, very difficult to get today. If you didn't have it already lined up, you're probably not getting it done. It'll be interesting to see how that all plays out. But Houston does have a supply issue it has to work through in this environment. That's why I said our Downtown project is going to be tough sledding for the next 1.5 years.

Austin Wurschmidt – KeyBanc Capital Markets

I appreciate the thoughts. That's helpful. Be well. Thank you.

Nick Yulico – Scotiabank

Ric, I just wanted to ask you about the balance sheet. Clearly you're in a very good position with low leverage and a lot of cash. How should we think about your deployment of the balance sheet over the next year? Are you seeing any interesting acquisition opportunities opening up yet, realizing it maybe early? I'm also thinking along the lines of partnering with private developers who need capital. How are you envisioning the opportunity set here?

Ric Campo – Camden Property Trust

Well, clearly our balance sheet is the strongest in the sector. We're sitting on over $500 million of cash with an unfunded $900 million line of credit, and this is exactly where we want to be. Over the last two years, in every single conference that Keith, Kim, Alex and I attended people pounded the table asking

why we were under-leveraged. Why are you still under-leveraged? Why are you issuing equity? Those kinds of issues. Our answer was that we're in the longest economic recovery in American history, and something is going to come along that's going to change that. I don't know what it is, but when that happens, I want to be positioned to have the best balance sheet in the sector because there should be opportunities that come up over that. Now we know what happened. Could we have predicted this? We didn't predict why it happened, but we did predict that it could happen, would happen, and it did. So, that's the position we're in. Now about opportunity, opportunity will happen. There's no question because if you look at the merchant builder model, they have a high pref that eats at their profits and their capital every single month. When you have an environment like this where the future is uncertain, you have capital issues with companies much more leveraged than we are.

Are there going to be amazing opportunities like those that presented themselves in 2009 and 2010? Unfortunately, we weren't positioned to be able to deal with the amazing opportunities we saw then. I think there will be some, but it's very early to tell what they are going to look like. I think that most people are hunkered down. If you didn't have a transaction that wasn't completed, wasn't hard earnest money or financed and ready to go, you're probably not getting that deal done. So, it will take a few months for the market to settle. There are really not a lot of transactions going on. To the private developer question, we have been fielding lots of calls from private developers who thought they had their equity and their debt and now they don't. They're either trying to sell us their plans or get out of the trap whole, with their chase money. We fundamentally will not partner with private developers or do mezzanine financing or anything like that. One of the big things we wanted to do after the financial crisis was have a very simple structure. Our cash is our cash, and we're going to be 100% when we invest. We do have a joint venture relationship with Texas Teachers which is very good, but fundamentally we won't be doing private developer equity transactions.

Nick Yulico – Scotiabank

And in your experience, how long is it going to take before you can become more comfortable with underwriting rents for the future development pipeline?

Ric Campo – Camden Property Trust

I don't know how long it is yet because we've only been in it for 1.5 months, right? I think there are some fundamental things that you can count on. You can count on people needing a place to live. You know what the forward supply picture looks like, and you can also plan for some scenarios on how the market will open over time. Once we get a little closer to how places open and how industries adapt, like leisure

industries or the oil and gas business in Houston, that will give you more clarity. With the capital structure we have now, we'll be able to make earlier decisions and make more aggressive bets than others. I think that it will become more clear probably in the next 3 to 6 months, then you'll start seeing activity and people making decisions on what they're going to do going forward. I don't think it's going to be years, but it's definitely going to be a few months.

Nick Yulico – Scotiabank

Ok. Thanks. I appreciate it, Ric.

Neil Malkin – Capital One Securities

Digging into the previous question, what is your view on development within your portfolio and your markets over the next 12 months? Like you said, starts are expected to be close to nothing, but you're in a position balance sheet-wise where it would behoove you to start now and really reap the benefits in 2022. Any thoughts there?

Keith Oden – Camden Property Trust

We've got a decent development pipeline. We think it's appropriately sized given the opportunity set out there right now. As far as additional starts, we had original guidance for a couple of starts in 2020. We'll wait and see on those. On the one in Florida, Camden Atlantic, we had literally just been in the process of pulling permits for construction. We were doing site work, so we just put that on hold out of an abundance of caution. But at some point, my guess is that when we see a little bit more clarity on what the job and the reemployment situation is going to look like in some of these markets, we'll probably forge ahead with our planned developments, whether it gets done this year or bleeds over into the first quarter of next year. We still think fundamentally there's a lot of value to be derived from doing what we do with our construction and development teams. As Ric said, it's too early to start speculating on that, because we need to see a few more cards. It's still early, but we're clearly going to use our balance sheet strength to do two things. We have $235 million left to fund on our existing pipeline. It's a great development pipeline that's being delivered in a very geographically diverse way. So, one thing that's a priority for us is to not have any stress about funding $235 million to complete that pipeline. And then secondly, we'll turn to opportunities for capital allocation. We'll look at what new development looks like in the new arena, and then compare and contrast that to potential acquisition opportunities that inevitably are going to come our way.

Neil Malkin – Capital One Securities

Makes sense. Can you juxtapose or compare and contrast your core Sunbelt markets with your Southern California markets just in terms of delinquencies and people who contacted you about payment plans? How are things performing on a submarket and price point spectrum?

Alex Jessett – Camden Property Trust

Absolutely. And as I said in the prepared remarks, if you look at California for us, in the month of April California was 9% delinquent. If you break that into 2 categories, LA/Orange County was around 11% and then San Diego/Inland Empire was around 6%. If you compare that to our Sunbelt markets, our Sunbelt markets are considerably lower. In fact, if you look at our total delinquency, which we reported at 3.2%, if you were to back out California alone, that number would drop to 2.4%. California is definitely putting a drag on our numbers.

Keith Oden – Camden Property Trust

One of the interesting things in the data we got from the Resident Relief Fund, is we really didn't see a disproportionate number of residents applying for the Resident Relief Fund from California, which is interesting if you think about it or what you would have expected it to be. It was pretty equivalent across the entire footprint of our portfolio. Plus or minus, we have 80,000 adults with lease signatures. Over 8,000 people applied and verified that they either lost their job or lost significant income. There wasn't a disproportionate amount in California, yet we were 10% delinquent. One conclusion from that is that while our California portfolio is not under any disproportionate financial stress, it's under disproportionate behavioral stress, and those are very different things. As long as policymakers continue to accommodate that behavior, it's going to remain under stress. I just don't see any way around it, but that's very different than asking can they pay, or do they have the ability to pay? If they were financially impaired, they would have applied for the Resident Relief Fund, so we know that there's a chunk of residents in California who are behaviorally acting not appropriately.

Neil Malkin – Capital One Securities

Huge moral hazard out there. Thanks for the questions.

Alex Goldfarb – Piper Sandler & Co.

I think you have been great for your residents and employees. I remember back with Hurricane Harvey you helped your employees rebuild. I think it's good that you help out. It’s interesting the moral hazard comment, Keith, on Southern California. Not to leave Alex Jessett out of the conversation, so a double

question for him. One, in full disclosure of the accounting treatment for the $10 million (when you net out the senior comp), how that will hit the P&L? And then a separate question for you, have you seen the rating agencies change their tune this time? It seems like we've seen very few REIT downgrades. Clearly apartments are better than retail, but everyone's been affected. You did your issuance last week. Is it your sense that the rating agencies are giving companies more time to settle out what the run rate NOI impact will be before taking action? Or what's your sense?

Alex Jessett – Camden Property Trust

So, the first question, when you look at the Resident Relief Funds, the way we will account for it is as an offset to revenue. We're not going to run it through same store, but it will be against revenue. If you think about our Components of NOI page in our supplement, it will be in its own separate category, so we'll take the entire amount in the second quarter as an offset to revenue. When you think about the rating agencies, I've spoken to all the rating agencies over the past couple of weeks as we got ready for a bond issuance and as we completed that bond issuance. The first thing I would tell you is that REITs by and large are so much stronger today than they were leading up to the last downturn. I think that is giving the rating agencies some comfort. I think the other thing that you have to look at is one of the big issues rating agencies look at - access to capital. When Camden is able to start with a $300 million bond transaction, then quickly grow that book to over $8 billion of demand, then upsize the offering to $750 million, I think events like that give the rating agencies a great deal of comfort about the access to capital that most of us have. I think that's why you're going to see them obviously be much slower in making rating decisions than they were in the past. If you think about what happened during the last downturn, there were a couple of rating agencies in particular that were very reactionary in moving people down two steps in one action. I think they quickly realized that was an overreaction, and I think they've learned on that side as well.

Alex Goldfarb – Piper Sandler & Co.

Okay. I don't think you addressed the hospitality market in a question, but you did say that Orlando, Tampa, and I think Phoenix were all some of your best rent collection markets. Can you comment on what's going on there? Maybe your residents aren't as into hospitality as other people in those markets, but what the impact is?

Keith Oden – Camden Property Trust

I wouldn't have included Orlando in the “less impacted”. We are seeing outsized impact in Orlando. Tampa is performing better than most and so is Phoenix. Of those three markets you mentioned, I think that

the weakest would be Orlando, and it would probably be in our bottom three or four.

Alex Jessett – Camden Property Trust

What Keith was talking about was pricing power in Orlando. If you actually look at delinquency in Orlando, Orlando is only 2% delinquent. Maybe it's a matter of time, and we'll see how May results end up, but it is holding on remarkably well in April.

Alex Goldfarb – Piper Sandler & Co.

Thank you.

Rob Stevenson – Janney Montgomery Scott

You gave April occupancy and rent numbers, but how should we be thinking about operating expenses? You're saving on turnover cost. There are probably some other expense lines that you're also saving on. But then you probably have higher insurance and maybe utility costs with everyone staying at home. And then there's some extra COVID expenses. How does this all offset? Are operating expenses higher or lower today? How should we be thinking about that?

Alex Jessett – Camden Property Trust

Ultimately, you've got a couple of things that are going on there. First, the $3 million bonus that we discussed is going to be booked to operating expenses. Once you pull out the $3 million and you look at the salary side, we should expect to have some general salary savings associated with open positions that are going to stay open a little bit longer. The other thing that everybody is seeing across the board is that benefit costs are coming down. Ultimately in this COVID-19 environment people are not going to the doctor unless they absolutely have to. In fact, I will tell you that most of the hospitals and doctors that we know personally are really seeing a downturn in the amount of cases they're seeing today. I think you're going to see savings on the salary side, ex the bonus. For utilities, obviously trash is going to be a little bit higher, but keep in mind that we rebill almost all the utilities back to our residents. Where you're really going to have savings is in R&M. As we retain more of our residents, our turn costs go down, and that's a reasonable number for us. On property taxes, we started the year thinking we're going to be at 3%. We don't have any reason to believe that's any different. We just went through our insurance renewal. We thought our insurance for the full year was going to be up somewhere around 20%, and that's exactly where we ended up. I think by and large, once you strip out the nonrecurring events, you should have some minor savings on expenses.

Rob Stevenson – Janney Montgomery Scott

Okay. And COVID doesn't overwhelm that?

Alex Jessett – Camden Property Trust

I know you wanted to strip out expenses that were nonrecurring. We do have property level COVID-19 expenses. When we look at our number for April, that's right around $300,000 and that's associated with additional cleaning, masks, and the fact that we're having special services enter some units to do repair work. So, you absolutely are going to have some COVID-19 related costs.

Rob Stevenson – Janney Montgomery Scott

Okay. And the second one for me is when you look back at the Global Financial Crisis, which is probably the best example that we have at this point, what was the final collectability rate at the end on those tenants that deferred rent, got put on payment plans, made promises to pay, the noncash payers at that point in time? What did you wind up collecting at the end?

Alex Jessett – Camden Property Trust

If you go back to that point in time, we really didn't have deferred programs. I think the better way to look at it is to look at what bad debt did. Bad debt started off right around 50 basis points, and it actually increased to about 100 basis points during the crisis.

Rob Stevenson – Janney Montgomery Scott

Ok. Thanks. I appreciate it.

Rich Anderson – SMBC Nikko Securities

You got good results relative to some expectations in terms of rent collection in April, and it's looking even a little bit better in May. At what point do you say, "Boy, this is pretty resilient, we might actually be able to provide some guidance in the second quarter?" How many successive months of proof that you've got a good flow of rent coverage by your residents will get you to a comfort level, even if we're not past this, and we're still in quasi-lock down around the country?

Keith Oden – Camden Property Trust

I need to see a couple of weeks where we don't have another 3 million unemployment claims filed. I think it's better that it's not 6 million, but 3 million is just a staggering number. So, until we get to an inflection point or somewhere where you say everybody who's going to be unemployed by this by and

large already is. Then I think you can start making some more rational estimates of what the next 60 or 90 days look like. But to me, it feels like it's still moving away. I guess there's good news in the sense that as it turns out, all the state unemployment claims turn out to be lagging numbers because people have been unemployed for longer than they've been able to get their claim filed. It's entirely possible that what we're seeing now is in the rearview mirror, but I don't think we'll know the answer to that for another month or two. I think I can speak for everybody here by saying, Rich, as soon as we get to a point where we think we can give you some meaningful guidance, we'll do it

Rich Anderson – SMBC Nikko Securities

And then the other thing is all of you, you and your peers, were ahead of the curve in terms of tech investments, and that's obviously helping you now through the leasing process. I'm curious though if you were somewhat concerned going into it, maybe not ready for prime time yet as they were not fully rolled out. Has that proven itself out so far, have there been any hiccups in the process? And a corollary to that question is, do you see any scenario where you can have more robust leasing activity in this environment when you consider elevated close rates and people processing and coming to grips with this new normal in terms of the leasing process in today's environment? Could we actually get to a point where it's almost just like it, but for different reasons?

Keith Oden – Camden Property Trust

Yes. Rich, we had several different pilots underway for doing some version of virtual leasing and self-guided tours. We had put a lot of time and effort in it, but we had not yet convinced ourselves that our customers would accept in large numbers that not having the one-on-one interaction, personal touch, Camden cares approach to the leasing experience. I think we've put that one to rest given the feedback from our customers regarding the virtual leasing experience. So, number one, we went from our toes in the water, maybe up to our ankles, then we just dove off. We're in it head deep. We were able to quickly do that because of our history of rolling things out on technology initiatives and getting buy-in very quickly. Getting that process in place and taking the plunge and saying, "you don't have an option now, and we're not going to talk about it anymore. We're going to do it." That was good in the sense that our folks quickly adapted. The flip side of it is that the feedback from the residents has been incredibly positive, to the point where there are a lot of people have indicated they like this better than whatever process we had in place previously that involved a personal visit and a tour and the rest. So, I think there are permanent changes coming out of this. That's just one of them. There are going to be a bunch of others, but that's probably the most immediate in terms of business practices. When we come out of this, even if somebody waived a wand and we were back to January-type conditions, we're not going back to that

from the standpoint of how we operate on-site. There are too many clear advantages, and also consumer behavior is probably ahead of where we were.

Ric Campo – Camden Property Trust

Yes. Let me add on the work side of the equation. Our corporate and regional office staff have been out of the office for a long time now. I think Alex had his fastest close in terms of closing our quarter, all done virtually in the cloud. We spent a fair amount of money, and it took us two years to implement a cloud-based technology. We complained about it forever until we had to actually use it. Now people are saying it's amazing. So, I think there are going to be dramatic changes in how people think about the workplace, and how they think about starting the workplace back. Do you start at 25% or 50% of people? I think we have a fair number of people who really like Zoom and like telecommuting. I'm in between houses here in Houston. I have a place out in Columbus, Texas, which is about an hour drive on a normal commute day, sometimes it's an hour and a half or an hour and 45 minutes. It took me almost about an hour to get in today. I think there are going to be a lot of fundamental changes in how we all do business, not just on-site, but in our corporate offices as well. Companies that haven't invested in technology and don't have the ability to immediately plug-and-play at their homes are going to be really disadvantaged. I think it's going to make us think more about homes and what our people need. High Speed Internet. They need to have it, it needs to be secure, and all those things. I'm excited about that a bit because you could end up with a lot of really cool and more flexible workplaces than we've had in the past.

Rich Anderson – SMBC Nikko Securities

I'm enjoying a four second commute myself. Thanks.

Zachary D. Silverberg – Mizuho Securities

Just curious on some comments you made about turnover. How low do you think it can actually end up? And are you seeing any extra benefits on the revenues and expenses side?

Keith Oden – Camden Property Trust

Well, I never thought we would get to 37%, so I'm probably not a good one to ask, but can it go lower? Yes, I think so for a couple of reasons. People are enjoying the living experience that they have. Everybody understands it's not optimal to be sheltering in place, but the companies who have taken extraordinary care keeping the place open and keeping the lights on, which are by and large our public competitors and probably a dozen or so really, really well-run private companies, are going to differentiate themselves as a place to live for the next five years out of this mess that we're in. I think it's actually been

a time where if you love the place that you live, and you're being cared for in extraordinary ways, you've got to question why you would leave that? Because the pain associated with not being cared for correctly and properly in this environment is probably not a risk that a lot of people are going to want to take. That's not going away anytime soon. So, could the 37% become 33%? I suppose it could, but we'll see.

Ric Campo – Camden Property Trust

On revenue and expenses, generally lower turnover lowers expenses. You don't have to relet. You don't have to have commissions on it. You don't have to redo the carpet and things like that. On revenue, I'd always rather have a renewal at maybe a lower rate than a new lease because you're saving all the other costs. So, low turnover is a really good thing long-term for this business and for Camden.

Zachary D. Silverberg – Mizuho Securities

Great. Appreciate the color. In your press release, you outlined last April, or a more typical month, about 1.5% delinquency. What percentage of this 1.5% do you end up ultimately collecting, and what is the time frame behind that?

Alex Jessett – Camden Property Trust

It usually takes us a month or so, and we'll work that 1.5% down to what is typical, which is about 50 basis points.

Zachary D. Silverberg – Mizuho Securities

Great. Thank you.

Alex Kalmus – Zelman & Associates

On the expense front, property taxes were obviously a tailwind this quarter. Can you walk us through the market level buildup for this decline and what you expect going ahead? Is this all from Texas?

Alex Jessett – Camden Property Trust

Yes. If you think about what we had for property taxes, it was predominantly driven by some select refunds that we got in, and those were all refunds that we knew were going to come our way. Dallas was represented, as was Atlanta, so that was all very typical. If you think about property taxes in general, I started the year believing that property taxes were going to be up right around 3%, and I still think that is going to be the case. If you think about the markets for us that are a little bit of an outlier on the property tax side, you've got Houston which is currently up 7%, and you've got Orlando which is up about 9%.

But you've got that offset by some of our markets that are actually having negative growth when you think about refunds. So, where we are today, we think 3% is probably a pretty good number. What I will tell you is what typically happens. When you go through cycles like this, the great thing about property taxes is it's the one large expense item that can actually turn negative. And in fact, it did turn negative during the last downturn. I assure you that all of us that have very good tax consultants, and I know that Camden has some of the best tax consultants out there. I know that because our peers often call us and ask us who we use. Our tax consultants are out there, and they're ready to fight. Maybe we don't get the benefit in 2020, but I'd expect to see benefits in 2021.

Alex Kalmus – Zelman & Associates

And just a quick follow-up. With regards to the renewals that you're offering, are some of these under 12 months? Or are we thinking mostly 12-month lease renewals?

Keith Oden – Camden Property Trust

The vast majority of them are taking 12-month renewals. We offer terms anywhere from 9 months to 15 months, but it's predominantly 12 months. If your question is on short-term renewals, no, we're not seeing that. I think people are wanting certainty of their living conditions for the next year.

Alex Kalmus – Zelman & Associates

Got it. Thank you.

Ric Campo – Camden Property Trust

Great. Well, thanks. We appreciate taking the time to visit with us today, and we will talk to you soon. Take care.

Edited for Readability